PROCEEDINGS OF THE NATIONAL WORKSHOP ON HOG MARKETING ALTERNATIVES

Agriculture Canada

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Preface

The National Workshop on Hog Marketing Alternatives was organized to report on a major industry study conducted by Drs. J.C. Gilson and R. Saint-Louis, titled *Policy Issues and Alternatives Facing the Canadian Hog Industry*. The conference was organized into four parts:

- the domestic and international setting for the Canadian pork industry;
- the results of the study;
- the implications of the study to all sectors of the industry; and
- a workshop to debate the future direction of the industry.

These proceedings represent the collection of formal workshop presentations and a summary of the workshop discussions.

As the organizers of the workshop, we are impressed with the quality of presentations and workshop discussion. We wish also to thank our respective organizations for their financial support, Bob Lyle for editing these proceedings and Barbara Ladouceur for typing them.

H. Bruce Huff, Agriculture Canada
Martin Rice, Canadian Pork Council

1

Chairman's Opening Remarks

Bill Vaags
President
Canadian Pork Council

I welcome you all here to what is probably one of the largest workshops the hog industry in Canada has ever undertaken. In 1985 in Winnipeg the Canadian Pork Council made a decision that we should be doing a study to look at various marketing options in Canada. From that resolution in Winnipeg, we eventually retained the services of two professors who are well-known for their work in this area: Dr. Robert Saint-Louis and Dr. J.C. Gilson. They have completed that study after about nine months of very intensive work. I want to especially thank those two people for the work they have done. In addition, Mr. Bruce Huff from Agriculture Canada and Mr. Martin Rice from the Canadian Pork Council, along with all the support staff from both offices, contributed a tremendous amount of work I certainly want to recognize. It was an immense undertaking in a very short period of time.

When we undertook to do this study, we were not sure what to do for a follow-up. When it was completed, the Canadian Pork Council decided in December that we should have a follow-up workshop, that we should get people from across Canada, namely producers, retailers, wholesalers, university people, governments at both the provin-cial and federal levels, and that we should bring them all into one room for a two-day in-camera session.

A look at the agenda shows that this industry is indeed very large and complex. Some people say that we have too many speakers on the agenda, but other people say that the number is just about right. Some people have said the workshop is coming too soon after the completion of the study, with little preparation time before we proceeded with such a workshop. I maintain that once we have the study completed, the best thing to do is put everybody together immediately and to try to pick the brains of as many people as we can possibly think of.

The hog/pork community is indeed very large. We represent some 50 000 producers in this country and another 350 000 people employed from the farm gate right through to the retail sector.

We are also a very large community as far as international trade is concerned. Therefore we have broadened our scope by bringing in speakers from outside the country. We particularly welcome Mr. Akibumi Sekiya from Tokyo, Japan, Mr. Knud Buhl from Denmark, and Mr. Raymond Daniel from the United States.

So welcome, gentlemen, to this workshop. We are certainly looking forward to all of the speakers' presentations. Today will be a day of very intensive activity. We have a long list of speakers and I make no aploogy for the number of speakers we have put on the agenda. I think we have to keep our scope very broad to obtain a comprehensive understanding of the hog industry of Canada.

When every speaker is finished this morning, depending on time schedules, I will take the chairman's prerogative to entertain one or two questions. If indeed we are running behind time, we will have the question period later this afternoon, after all of the speakers have finished.

We anticipate that, once all of the presentations today have been heard, we will have a number of questions for each of the participants to discuss tomorrow morning in the workshops. From the answers coming back from the various workshops, we intend to draft a summary paper and to make a decision on what we think we want to tell our producers in Canada about what this workshop has achieved. I believe it is the responsibility of the participants, particularly the producers, to make some decisions by tomorrow night on what

we want to accomplish from this kind of workshop. We are not here just for the sake of having a good time and listening to all the speakers. We are here as leaders of the industry. I would anticipate that tomorrow night we can draft a summary paper, put out a press release and indeed tell all Canadian producers what we have actually achieved here. It is your responsibility, not mine.

2

National Agriculture Strategy

Jean-Jacques Noreau
Deputy Minister of Agriculture
Agriculture Canada

Marketing is certainly a central issue – perhaps the most central issue – in the red meat sector today. I am happy to see members of the hog and pork industry getting together to discuss alternatives in a coordinated way. This kind of dialogue, involving both industry and government, is very much in line with the principles of the National Agriculture Strategy.

The National Agriculture strategy is the subject of my remarks today. I will begin by describing its general objectives and principles, and then I will move on to more specific recommendations.

Background

The National Agriculture Strategy arose from a commitment made at the First Ministers' Conference in November 1985. At this meeting, Canada's Agriculture Ministers were assigned the task of developing a coordinated plan to address the problems of the agri-food sector.

A number of working groups were appointed to examine priority issues in the industry. After a year of study and discussion, the strategy was finalized and unanimously endorsed federally and provincially. It was submitted to the First Ministers' Conference in Vancouver in November 1986.

Objectives

In essence, the National Agriculture Strategy is the framework of a long-term plan to create a market-oriented agri-food sector. It also provides general direction for short-term measures to bridge temporary problems.

The general objectives of the strategy are the same basic goals government has traditionally held for agriculture and I think they are shared by most Canadians, whether inside or outside the industry.

Briefly, the objectives of the strategy are:

- to increase income and employment in agriculture from coast to coast by promoting development based on realistic market opportunities in each region;
- to facilitate this development by reinforcing the competitive position of the industry; and
- to provide farmers and especially the family farm structure with the means to survive climatic and price variations in both the medium and the long term.

These objectives are not anything new. What is unique about the National Agriculture Strategy, in my opinion, is that it provides a national consensus on the means by which these objectives are to be achieved.

Principles for action

The Ministers have agreed upon a number of guiding principles for government action.

The first of these is a recognition of agriculture as a joint and shared responsibilty of the federal government and the provinces. This is really a key point. There has been a tendency in the past to think of Agriculture Canada as being "it" when it comes to agriculture. The department has a wide range of responsibilities and in a sense has tried to be all things to all people. By taking this approach we have often spread our finite resources rather thinly. In some cases, I think, our involvement has become superficial.

The National Agriculture Strategy recognizes that Agriculture Canada is only one actor on a stage that contains many actors. It recognizes that we can make better use of our resources, both federally and provincially, if each actor confines himeself to the roles he is best suited to play.

This leads us to a second basic principle of the strategy, which is effective federal-provincial collaboration. Initially we have to define the roles we are best suited to play. Then we have to coordinate and harmonize these roles to eliminate duplication of effort and conflicting goals.

This collaboration is absolutely necessary if the public sector is to make effective use of its limited resources. We all know that the days of readily available dollars are behind us. Everyone is on a tight budget these days, both at the federal and at the provincial levels. In one way, this may be a good thing, because being less rich may make us more cooperative.

As an aside, I would like to add that we have set a solid precedent for this kind of federal-provincial collaboration in the past couple of years. The $1 billion Special Canadian Grains Program, the Farm Credit Corporation's Commodity-Based Loan plan, the Farm Fuel Tax Relief program, and the Farm Debt Review Boards were all developed by Agriculture Canada in consultation with provincial Agriculture departments. They are all good examples of how well this kind of consultative process can work.

To return to the strategy itself, a third principle for action is equity and respect for regional economies. Clearly this is the key to any successful federal-provincial collaboration. The strategy recognizes that all things are not equal across Canada, that resources are different, and that different regions have different economic goals and priorities. We could not call it a "national" agriculture strategy if we did not acknowledge and respect these differences.

The principles I have outlined are a guide for intergovernmental and interregional action. The strategy also contains a second set of principles that govern interactions between the public and private sectors.

Basically the strategy states that all government action should be oriented toward the marketplace and toward industry competitiveness. Roughly translated, this means we should look more closely at consumer trends and preferences. When we know what consumers want, we should help the industry give it to them as efficiently as possible.

This point is worth clarifying. Agriculture Canada or any other government department should not play a direct role in marketing; the industry participants are the experts at this, as proven by their performance over the past decade. The hog industry has grown at a rate of about 7.5% during the past 10 years. Whereas Canada was a net importer of pork during the mid-1970s, pork is now our second largest export commodity after wheat.

Agriculture Canada's role in this growth has been to support and facilitate industry decision making. I think we should maintain this role. The department should help the industry achieve its objectives but should never try to create those objectives itself.

The National Agriculture Strategy recognizes the private sector as the "final driving force in the economy." For this reason, it calls for effective cooperation and coordination with the private sector as another of its guiding principles. The challenge in government is to make this coopeeration the foundation of all of its activities. I think the way in which we ultimately meet this challenge will determine the success or failure of the strategy.

Significance of the NAS

In a nutshell, these are the objectives and principles of the National Agriculture Strategy. Taking a cynical view, one could say it is all just rhetoric. While it is true that anyone looking for detailed direction in the document would be disappointed, I prefer not to take the cynical view. I think that seen for what it is, namely, the first step in a much larger process, the strategy is a very positive thing. It provides a solid base for national consensus and workable compromise. It provides a foundation on which more detailed agreements can be built.

Specific recommendations and action

I hope I have made clear the basic principles and philosophy of the National Agriculture Strategy. What follows is an outline of some of the more concrete elements of the plan.

The NAS identifies four priority areas for government action. The Agriculture Ministers have agreed to pursue a series of medium- and long-term initiatives in each of these areas.

As deputy minister for Agriculture Canada, I have been very much involved in implementing these recommendations along with my provincial counterparts. We have had a series of meetings on the subject since last November. We have also divided ourselves into smaller groups so that we can work more closely with the officials involved in each priority area.

Farm products marketing

Since this conference is about marketing, I will start with the action being taken in this area. Farm products marketing is a major priority in the National Agriculture Strategy. The strategy recognizes that major concerns exist in both domestic and international markets and in the area of transportation. Specifically, provincial and federal officials are looking at:

- reduction of interprovincial trade barriers and harmonization of production and marketing standards across the country;
- a review of the Feed Freight Assistance Program, in view of its perceived inadequacy in the area of current grain transportation costs;
- development of measures to encourage diversification of value-added production; and
- development of programs to assist the private sector in mounting aggressive marketing campaigns. One such measure has been to revive the Market Development Council. Council members from the provinces, Agriculture Canada and the Department of External Affairs are now working on a coordinated action plan to enhance both export and domestic marketing. A steering committee of deputy ministers is also at work to speed up progress in this area.

The strategy also endorses current efforts to reduce foreign trade barriers and export subsidies through international negotation. Canada has taken a leading role in pursuing these issues in world fora like the General Agreement on Tariffs and Trade (GATT) and through bilateral negotiations with our trading partners. Because these negotiations are of considerable interest to the pork industry, Agriculture Canada will continue to press for improved market access for Canadian hogs and pork products in the United States, Australia, Europe and elsewhere.

Another marketing initiative of interest to everyone is a review of the administration of national supply management agencies. The National Agriculture Strategy recognizes supply management as a "fundamental characteristic of the Canadian agriculture and food sector." However, the Ministers agree that the issues of high quota and land prices, interprovincial sharing of production quotas and market development deserve some reexamination.

These issues are part of these workshop discussions, along with such concerns as the role of export marketing and the maintenance of production efficiency. Obviously they have major implications for the future of hog production in Canada.

Farm income, credit and risk protection

A second priority area for action is farm income, credit and risk protection. The strategy states that "farm financial security must be enhanced through measures to facilitate long-term financing and to address critical problem areas."

A number of federal-provincial working groups now are examining financing alternatives and are making recommendations for action at all levels. The efforts at which these groups are directed include the following:

- New equity instruments for primary agriculture are being established. Options being examined include registered farm investment funds, guaranteed vendor-financed mortgages, interest rate stabilization, and agriculture investment bonds.
- The roles of the Farm Credit Corporation and of provincial farm lending agencies now are being redefined. A major priority is to return the FCC to its predominant role in providing fixed-rate, long-term financing for Canadian farmers.

In the area of risk protection, a major focus has been the development of a long-term comprehensive disaster relief plan for the western provinces. The initial design of this plan now is complete and currently is being redefined.

Another risk-protection initiative of interest to members of the hog industry is a review of national income stabilization programs. The strategy recognizes stabilization as a central part of any effort to provide financial security to producers. Nonetheless, there are a number of fundamental questions to be answered about our present approach to stabilization programs.

First and foremost, we have to look at the role of federal and provincial contributions in stabilization plans. We have to make sure that stabilization programs are not used as production incentives to create "artificial" industries. While provincial subsidies need not be eliminated, they must be kept in balannce so that no single province obtains an undue advantage.

This is certainly an important issue for the National Tripartite Price Stabilization Program. I think the plan so far has worked quite well. But there remains a need for greater flexibility and greater sensitivity to regional economies. The National Agriculture Strategy recognizes this need, and I think this may have been a factor in the recent decision by Saskatchewan to enter into the beef program.

A second major question to be addressed is the inconsistency of programs at the national level. Right now we have the Agricultural Stabilization Act, the Western Grain Stabilization Act and the National Price Stabilization Program. We have "named" commodities and "designated" commodities, with different trigger mechanisms and different federal and provincial participation.

Would a more consistent approach provide more equitable and effective protection for producers? Is a tripartite approach the answer? Can programs be made to function on an actuarially sound, self-sustaining basis? These questions must be answered if we are to provide really meaningful assistance to producers.

We are working with the provinces to resolve these issues. Three joint working groups now are examining the whole range of stabilization programs with a view to refining our present approach. I anticipate significant progress in this area in coming months.

Technology development and transfer

A third priority area in the National Agriculture Strategy is technology development and transfer. The strategy states that "producers, entrepreneurs and governments must work together to ensure the effective management of technological change for the long-term interests of the agri-food sector."

The Ministers have called for action to better define the roles of all participants in agricultural research. A major objective is to avoid duplication of programs and to develop complementary projects.

To this end Dr. Art Olson, our new assistant deputy minister for Research, is conducting a series of bilateral discussions with his provincial counterparts. He will follow up these discussions by meeting with representatives from the industry.

I hope these meetings will sustain the growing private sector involvement we have seen in recent months. This involvement is very much a part of the National Agriculture Strategy. Our goal is to see successful joint ventures between the department and industry; that is, "joint" in the sense of both planning and funding.

I would emphasize, however, that this does not mean the department is reducing its research responsibilities. On the contrary, our commitment to agricultural research is stronger than ever and will remain strong, as a central part of the National Agriculture Strategy.

Soil and water conservation and development

A fourth and final area for action is soil and water conservation and development. The National Agriculture Strategy recognizes that the health of the farming sector ultimately depends upon the preservation of its natural resource base. The need for a concerted national effort in this area has been evident for some time.

Work now has begun on implementing coordinated soil and water programs across Canada. Bilateral accords between the federal and provincial governments are being negotiated to strengthen and expand the entire range of conservation and development activities. We are working to promote local conservation organizations and to provide a conservation orientation to all public sector programs and policies. We are also trying to heighten public awareness through events like National Soil Conservation week, scheduled for April.

These are the four major areas identified for action in the National Agriculture Strategy. A great many activities are being undertaken, both at Agriculture Canada and among the povincial departments. In outlining the scope and direction of the activities involved, I hope everyone can see that it is not "just rhetoric."

Agriculture Canada has undertaken a number of policy changes and initiatives relating to the strategy, which are too numerous to describe here. However, I would be pleased to discuss the strategy privately with anyone who would like further information.

Agriculture Canada has always enjoyed a close relationship with members of the pork industry. I hope the National Agriculture Strategy can bring us even closer as we face the challenges ahead.

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The U.S. Pork Industry Outlook for the Decade Ahead

Ray Daniel
Senior Vice-President
Chase Econometrics

Introduction

The entire U.S. livestock sector is currently benefiting from very low grain prices and reduced hog and cattle inventories. Hog producers last year experienced the highest hog/corn price ratios on record. Because of the biological lag, pork supplies, however, will still remain relatively low for the next 12 months, and producer prices and profits will be extremely attractive.

While the pork sector will remain profitable during the next year, the market has matured and per capita meat consumption has reached a plateau. Since there are limited U.S. export opportunities, total meat production can be expanded only at the rate of population growth without jeopardizing prices. Over the long run, consumer demand, including changes in taste preferences, will shape the Since there are limited U.S. export opportunities, total meat production can be expanded only at the rate of population growth without jeopardizing prices. Over the long run, consumer demand, including changes in taste preferences, will shape the structure of the U.S. hog industry.

We continue to foresee gains for poultry in greater market share at the expense of the red meat sector. Clearly poultry has gained an enhanced image relative to red meats over the past 10 years. Consumer demand for less cholesterol and more balanced diets, poultry's less expensive cost structure, and the increased offerings of chicken by fast food chains and tablecloth restaurants have contributed to the growth in poultry consumption. We expect poultry consumption and production to continue to expand through 1995. In the past, productivity gains in production, processing and distribution have allowed poultry operators to continue to expand output even with declining real poultry prices. In the future, poultry operators will engage in further processing rather than in exclusively live production. As a result, poultry prices will remain competitive. Poultry is expected to become the number one meat product in the American diet on a per capita basis by 1988, as annual consumption reaches nearly 79 pounds per person, compared with 74 pounds for beef and veal and 63 pounds for pork. Total poultry production in 1995 is projected at 22.8 billion pounds, 34% above the 1985 level. Per capita poultry consumption in 1995 is forecast at 84 pounds, representing nearly 38% of total red meat and poultry consumption.

The positive change in economic conditions in U.S. agriculture is perhaps most noticeable for hogs. From April to September 1986 hog prices increased by 50% from $40/cwt to more than $60/cwt, while corn prices fell from $2.29/bu to $1.44/bu. The resulting August 1986 hog/corn price ratio of over 36:1 was the highest ever, well above the 28:1 ratio reached at the peak of the 1982-83 expansion. The incentive is there for hog producers to expand, and there are a few indications that expansion is beginning.

However, the expansion in hog numbers will take time. The U.S. is starting with a very small breeding herd. Also, producers are cautious and want to be sure that this is a long-term change in profitability before committing to expansion. We expect an increase in hog numbers in 1987, but pork output will probably be only modestly above 1986 levels. However, by the second half of 1987 and through 1988, pork output will be up sharply. The pig crop in 1989 is projected at 97 million head, 10 million head above the 1985 level but still 6 million head below the previous peak of 102.8 million in 1979.

The production expansion will eventually become excessive, leading to lower prices and to a

herd liquidation. Over the long run, hog production will fluctuate along a flat per capita consumer demand trend.

Meat consumption

The shift in meat consumption patterns continues (Figure 3.1). The shift in meat demand away from red meats and toward poultry is widely accepted and is a cause of fundamental changes in the livestock industry. The phenomenon is relatively recent, having really begun after the tremendous cattle herd liquidation of 1976 and 1977.

For most of the last decade, beef has lost market share to other meats, declining by more than 5% since 1978. It is important to note that this decline has continued persistently, even though the seven-year period includes both an expansion and a contraction in the total cattle herd.

The change in demand for pork is a little less obvious, since consumption is driven by cyclical supply patterns. However, the pork share of the meat market has been consistently less than 30% for the past few years, after being well over 30% throughout the 1960s and until 1975, when the big bulge in beef supplies reduced the pork share of the market.

There can be no doubt about the trend in poultry consumption, which has increased steadily for decades. The rate of gain in market share for poultry products has increased significantly since the late 1970s, increasingly at the expense of beef.

There are many reasons for the changes in the meat markets. The factors favoring expansion of poultry consumption include relatively inexpensive prices due to relative feed efficiency and gains in productivity, convenience, availability, especially in fast food restaurants, aggressive marketing, and health concerns. The size of the total meat market expanded until about 1976. Since then there has been little, if any, increase in total per capita meat consumption. In a stagnant market, these factors become increasingly important. Over the next decade, acceptability of an even larger proportion of poultry in the diet will be tested.

The upward trend in per capita meat and poultry consumption evident for a number of decades has leveled off to only 0.5% since 1970. U.S. consumers are believed to have reached a level of meat consumption where very little additional per capita growth can be expected (Figure 3.2).

In 1984 per capita meat consumption on a retail weight basis was 210.9 pounds and reached a record of 214.4 pounds in 1985. Between 1986 and 1995 total meat and poultry consumption is expected to average 216 pounds, fluctuating between 213 pounds and 219 pounds.

In 1985 total per capita poultry consumption was 70.1 pounds while beef consumption was 80.2 pounds and pork consumption was 62.0 pounds. By 1988 poultry consumption is expected to exceed beef consumption, with poultry consumption of 79 pounds in 1988 and beef consumption down to 74 pounds.

Per capita pork consumption is expected to expand significantly over the next few years (Figure 3.3). Higher pork output will be instrumental in filling the gap created by declining beef production.

Overall per capita pork consumption has been on the decline for several years. Health concerns have contributed to the decline, as have certain economic and marketing developments. The underlying downward trend in pork consumption is expected to continue, despite the expected short-term surge.

The relatively low level of beef production and consumption will contribute to a relatively high level of pork consumption throughout the forecast. However, per capita pork consumption will remain below poultry consumption and may even fall below broiler consumption by the end of the decade.

Factors favoring production expansion

Lower feed costs will encourage expanded meat production. The new farm legislation will mean dramatically lower feed costs for the next few years (Figure 3.4). This will have a significant effect on the livestock sector. Lower feed costs will result in increased meat output and will ultimately reduce livestock prices. The link between feed costs and meat production has always been strong. In large part the high grain prices of the mid-1970s triggered the massive cattle and hog herd liquidation.

The decline in feed costs, especially for corn, will have a significant impact on hog production profitability (Figure 3.5). Over the next few years, the relatively high return is expected to indicate that expansion is justified.

The favorable profit environment is likely to extend beyond the typical expansion period because of declining feed costs and because of expected reductions in beef production. With total red meat production falling, hog prices will remain relatively stable, even in the face of increasing pork output.

Due to the likely persistance of the pattern of weak corn prices over the next several years, prices will have to decline considerably to precipitate hog herd liquidation. By 1990, hog prices are expected to drop to $36/cwt, with a loss of nearly $6/cwt, thus causing production cutbacks.

The high hog prices this summer and the declining feed costs will ultimately lead to increased hog numbers. The breeding herd expansion is expected to last into 1989, beyond the typical two-year period (Figure 3.6). The pig crop during 1989 is projected at 97 million head, compared with 86 million head in 1985 and 83 million head in 1986. The extension of the expansion phase is due to the expected decline in beef output, supporting hog prices and production profitability.

The many years of favorable returns will almost certainly lead to excessive production, falling prices and reduced profitability. As a result, herd liquidation is forecast to begin by approximately 1990 and to continue for three years.

The factors influencing the hog cycle should become more stable after 1990, when hog cycles will likely return to a more typical duration. However, if the decline in pork and red meat demand continues as expected, the amount of pork production and total hog numbers will probably continue to trend downward.

Decline in cattle numbers will continue through 1988-89 but expansion will be under way after 1990 (Figure 3.7). The cattle sector is clearly in the midst of a major herd liquidation, which began in 1982 and which has already resulted in a 10 million head decline in the cattle population.

The liquidation will continue in the short term because of continuing weak cattle prices and poor cattle production profits. In addition, the dairy whole-herd buy-out will cause a significant drop in cow numbers and subsequent calf crops.

The upturn in the cattle inventory can come about only as a result of significant improvement in profits for cow-calf producers. This will occur when the inventory of feeder cattle contracts to the point that cattle feeders must bid feeder cattle prices higher. Their ability to do so will occur as beef production declines and as feed costs fall, but the supply and demand of beef and red meat in total will play an important role.

Over the next few years, the rapid decline in the feeder cattle inventory should create a shortage, setting the stage for higher feeder cattle prices and leading to an end to the cattle herd liquidation and to a modest upturn in cattle numbers by the end of the forecast period.

Poultry production will continue to increase, dampening the effects of lower red meat production (Figure 3.8). The prolonged period of profitability will sustain the expansion in poultry output and consumption that has been under way for decades. The rapid expansion of the last couple of years will probably continue for the rest of the decade before the rate of increse begins to taper off. Poultry will continue to gain meat market share, first at the expense of beef and then at the expense of pork. Poultry production is expected to increase by more than 34% from the 1985 level by 1995, up 118% from 1975 levels.

FIGURE 3.1 DISTRIBUTION OF PER CAPITA CONSUMPTION OF BEEF, PORK AND POULTRY, RETAIL WEIGHT, U.S., 1960-95

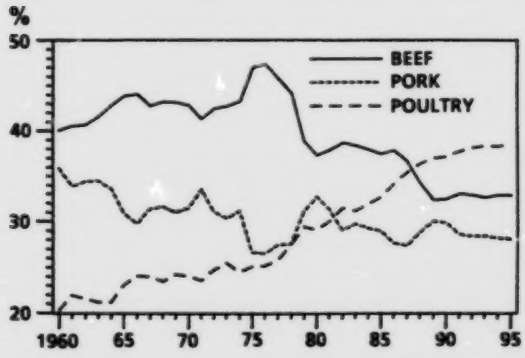


FIGURE 3.2 PER CAPITA CONSUMPTION OF BEEF AND VEAL, PORK AND POULTRY, RETAIL WEIGHT, U.S., 1930-90

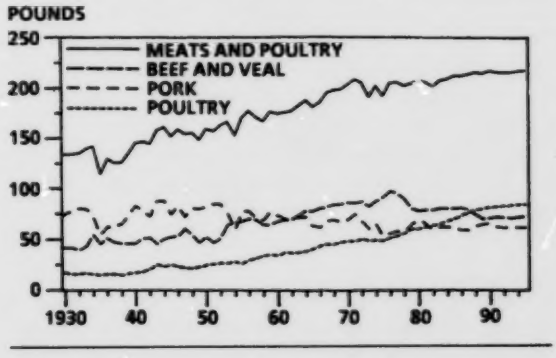


FIGURE 3.3 PER CAPITA PORK CONSUMPTION, RETAIL WEIGHT, U.S., 1960-95

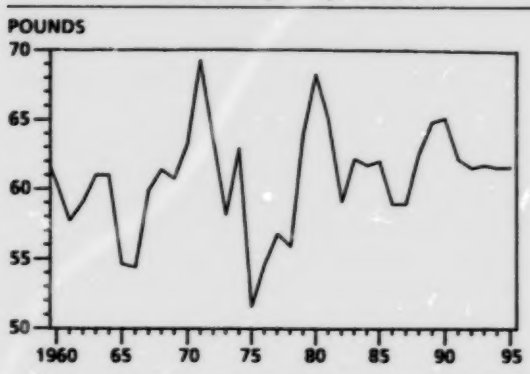


FIGURE 3.4 FARM PRICE OF CORN, U.S., 1954-55 TO 1995-96 (constant 1982 dollars)

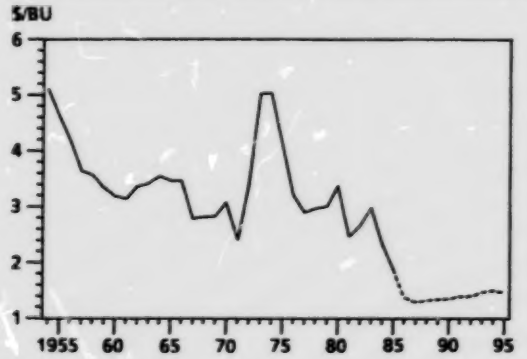


FIGURE 3.5 PRODUCTION PROFITABILITY OF HOGS, U.S., 1980-96

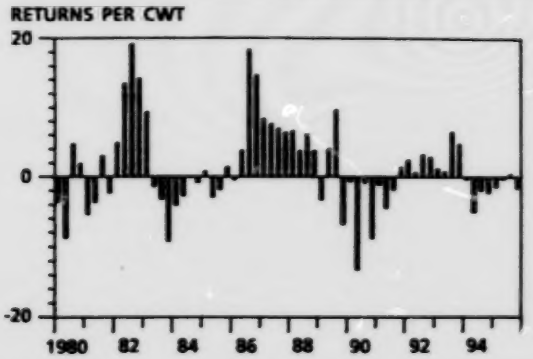


FIGURE 3.6 BREEDING HOG INVENTORY, U.S., 1965-95

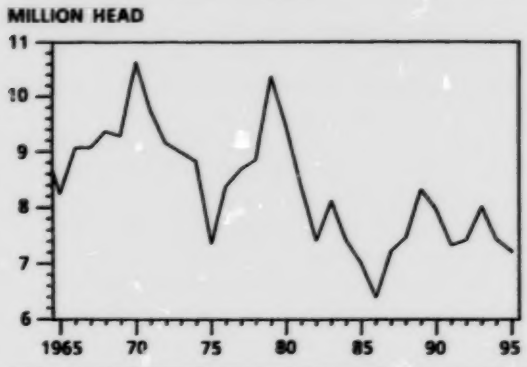


FIGURE 3.7 CATTLE INVENTORY, U.S., 1950-95

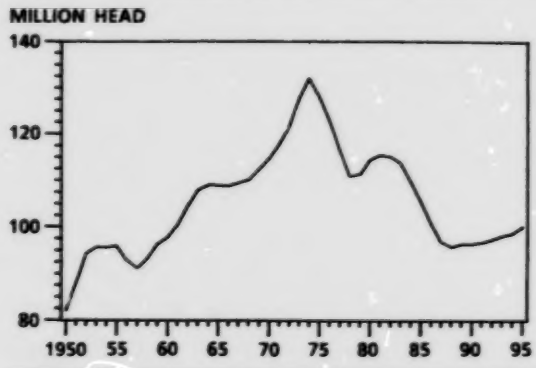
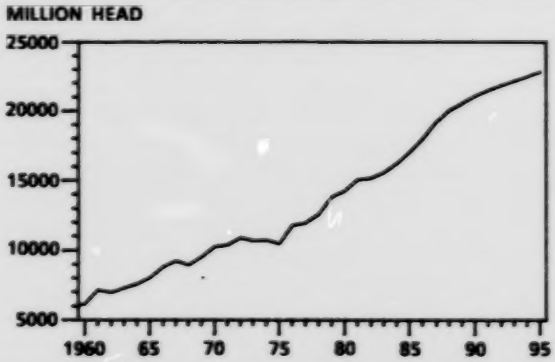


FIGURE 3.8 POULTRY PRODUCTION, U.S., 1960-95



4

Developments in Pacific Pork Export Markets: Emphasis on Japan

Akibumi Sekiya
Director and Manager of Business Operations
Canada Packers (Japan) Inc.

I am honored to have this opportunity to speak on developments in Pacific pork export markets, with emphasis on Japan. I will begin with the environment of the Japanese domestic hog production and manufacturing sectors. Then I will discuss pork imports to Japan from Taiwan, Denmark and Canada, with emphasis on their abilities to meet Japanese requirements.

Over the past five years the rate of increase in Japanese hog population has slowed to 2% to 3% yearly while the number of hogs per farm has steadily increased. Factors contributing to this include more efficient hog raising practices, increased productivity and stability of production material costs, and higher levels of education among hog producers.

In 1965, the hog population totaled 3.9 million head (Table 4.1). This figure broke the 10 million level for the first time in 1980 and is currently above 11 million head. The slowdown in the rate of increase in hog population began in 1979 when the Japanese government issued guidelines designed to trim the rate of hog increase in order to maintain economies of pork production.

In 1965 the total number of farms was 700 000, with an average of 6 hogs per farm. Since then, the number of farms has decreased continuously to its current level of 74 000, with an average of 149 hogs per farm. This trend strengthened as vertical integration, which protects farmers from fluctuations in areas such as in the weaner markets, became the norm.

Cross breeding of market pigs has been popular in Japan, with 87.2% of hogs falling into this category in 1985. The breeding stock makeup in 1985 was as follows. Among boars, 4.2% were crossbred and 95.8% were purebred, the latter comprising 52.2% Duroc, 15.0% Hampshire, 13.0% Yorkshire, and 15.6% others and hybrid. Among sows, 73.2% were crossbred and 26.8% were purebred, the latter comprising 13.5% Landrace, 4.4% Yorkshire, 3.6% Duroc, 1.2% Hampshire, and 4.1% others. The trend is toward using more purebred boars and crossbred sows. Crossbred sows are more prolific, are highly fertile, and have better maternal instincts.

Hog slaughter and production figures are shown in Table 4.2. Slaughtering figures for 1985 suggest a trend toward more privately owned abattoirs in Japan, as more joint ventures between co-op members, meat processors, feed companies and the like get under way. Of 450 abattoirs in Japan in 1985, 246 or 55% of the total were owned by municipalities, 108 or 24% were owned privately, 59 or 13% were owned by co-ops, and 37 or 8% were owned by the federal or prefectural governments.

The purpose of the livestock stabilization system is to protect domestic farmers by maintaining upper and lower price limits on wholesale carcasses (see Table 4.3). It ensures a stability of supply and price to both consumers and farmers. It is not designed to restrict or limit free market activities, but rather it is designed to review such related economic factors as feedgrain prices and supply and demand on a yearly base and to adjust the upper and lower price levels accordingly to maintain price stability. By accounting for yield differences, this system applies to skinned and scalded carcasses in the same manner.

If the domestic wholesale carcass price is higher than the upper limit price for a certain duration, the Livestock Industry Promotion Corporation (LIPC) will release its inventory to the market, or a duty-waive period on imported pork will be announced, in order to depress the domestic market level. If the domestic wholesale carcass price falls below the lower price limit, LIPC and the farmers'

co-op will purchase and store carcasses to strengthen domestic prices.

In conjunction with the livestock stabilization system, a system of differential duty is applied on imported pork cuts. This system has been in effect since the liberalization of pork imports in October 1971. Before this date, pork was under an import quota system. The most recent duty-waive period for imported pork was declared between May and October 1976.

Meat production and processing in Japan is outlined in Tables 4.4 and 4.5. Looking particularly at the volume of ham and sausage production, the use of pork in the manufacture of these products has grown dramatically. As of November 1986, there was a 6.4% increase in cured loin hams, compared with the level in the previous year (Table 4.6). More remarkable is the 22.5% increase in Vienna sausages. The consumption trend is moving toward higher-quality products and away from those using lower-valued ingredients such as fish, mutton and horsemeat. Generally speaking, the production of ham and sausage is expected to increase in the future as consumption patterns of the younger generation tend to favor meat products over fish products.

Since Japan liberalized pork imports in October 1971, Canada has been a leading supplier to our market (Table 4.7). In 1981, total pork import quantity reached a record 185 747 tonnes. Looking into this breakdown by country, Denmark supplied 39.3%, Canada 23.3%, United States 21.4%, Taiwan 10.7%, and others 5.3%. In 1981, Denmark, Canada and the United States were the three major suppliers in declining order.

However, two consecutive outbreaks of foot-and-mouth disease in Denmark forced Japan in March 1982 to immediately impose a ban on pork imports from that country, which greatly affected the Japanese market for the next 18 months. In September 1983, the ban was lifted. But during the curtailment of Danish imports, there occurred many remarkable changes in the Japanese market, especially the share of Taiwan. This latter country concentrated on expanding its hog production to a great extent and steadily obtained a larger share of the Japanese market during Denmark's absence. By the end of 1986, Taiwanese pork imports surpassed the high level attained by Denmark in 1981. Denmark, however, recovered its market share of approximately 38% of Japanese pork imports by 1984 and held it, making the total import share for these two countries as high as 78% in 1986.

These circumstances require a serious review of the situation in depth. What are Taiwanese strengths in our market? How do they compare with those of other competitors, especially Denmark and Canada?

Taiwan's geographical proximity to Japan is a very big advantage, allowing for large shipments of chilled pork cuts to Japan (Table 4.8). I personally estimate this to be approximately 12 000 tonnes out of Taiwan's 80 000 tonnes exported in 1986. Naturally ocean freight costs for Taiwan are lower than those for Europe and North America.

A fair portion of Taiwanese pork is traded in the butcher trade market as table meat. Taiwanese suppliers readily comply with any specific requirement of the Japanese market, such as the preference for shoulder end cuts between the fourth and fifth ribs, finger-ribbed products, special packaging, and so on. In other words, these products are precisely suited to Japanese specifications for the table meat market. This market gives a better yield and return to the supplier, who is then able to be more competitive on prices. This means that the supplier is able to sell a larger proportion of lower-valued products.

We must not forget the historical background between Japan and Taiwan. Many older Taiwanese were educated in Japan prior to the Second World War, and almost all business today is being done in the Japanese language. Obviously it is easier to understand each other's needs. For your information, there currently are two joint ventures between Japanese meat processors and Taiwanese packing houses.

Taiwan does not have an alternative export market other than Japan. Table 4.8 clearly shows that more than 93% of Taiwanese pork exports go to the Japanese market. Their export mind is very determined in all aspects. We can say that the Taiwanese pork industry has grown up with the large Japanese pork market. In 1986, in addition to pork cuts, more than 3 700 tonnes of pork carcasses were exported to Japan from Taiwan, and approximately 3 300 tonnes of so-called seasoned pork were exported. This is lean pork meat trimmings mixed with pepper and salt; it is used in the production of Vienna sausage, whose popularity is rapidily increasing. I might add that while Taiwan has low labor costs, its pork products are of a very high quality.

Next I will turn to the Danish situation and speak on what I have learned through my business experience there.

Compared with Taiwanese pork, a fairly large portion of Danish pork, loins and bellies in particular, is consumed through manufacturing in Japan. Table 4.9 shows that 55 700 tonnes or 71% of pork imports from Denmark are made up of loins and bellies, i.e., middle cuts. A fair portion of this quantity is being contracted under a sort of long-term contract base for three months or longer and at a fixed price. This is attributable to Denmark's large surplus of middle cuts, which coincides with Japan's demand for processing material. This gives Japanese processors a basic assurance of stable raw material supply. No plant in Denmark refuses to accept Japanese inspectors who ensure consistency of quality. Such channelized relations between Danish plants and Japanese processors are becoming closer and more prevalent. The Danish Bacon and Meat Council holds seminars and sponsors sales campaigns in conjunction with 1 500 Japanese stores, with emphasis on table meat.

On top of such a fundamental supply attitude, Danish producers are at an advantage, since they are supported by an EEC export subsidy program and a private storage aid system, which enables them to adjust delivery periods without the related interest and storage costs. However, they are subject to regular market fluctuations.

Now I would like to analyze Japanese pork import figures. Table 4.9 demonstrates the Japanese preference for pork loins. In other words, Japanese manufacturing pork meat demand is mainly composed of loins, and Japan's domestic shortage of loins is being filled through imports.

In 1986, Japan imported more than 85 000 tonnes of loins. Of this, 17 797 tonnes came from Canada, which amounted to 78% of total Canadian pork exports to Japan. Almost all loins were used in manufacturing cured loin hams. A more noteworthy point is that the buying specification for loins has drastically changed over the last few years. Japan used to import under the specification of regular long-cut backs with buckeye on, one-inch belly strip, false lean on, one-half-inch fat cover. However, since the Japanese market has become more competitive, all pork cut suppliers have adjusted to a much improved specification. These days the usual Japanese required specification of loin is short-cut backs with buckeye off, false lean off, no belly strip, one-quarter-inch fat cover. A more improved specification is eye of lean muscle only. I estimate the yield difference to be somewhere around 40% to 45%, compared with the old specification whose average weight per piece was 3.7 kilograms. The current volume of imported loins is the equivalent of 11.58 million head of hogs. For the sake of comparison, by using the specification of loin eye muscle only at a weight per piece of 2.1 kilograms, the same quantity of loin can also be calculated as an equivalent of 20.4 million head. This difference gives a very interesting picture.

This improved specification for loin buying will most likely continue under the existing differential duty system. In the near future I predict the specification for loins will be sized and netted, ready for pumping (curing), and yielding products with more value-added. I understand some Taiwanese plants have already started selling such loin specifications to Japan. This is the only way for Japan to buy a higher proportion of lower-valued products, depending on market price.

Given this Japanese pork import situation, a large portion of the fresh meat market for table use is more or less filled by domestic and Taiwanese pork. Therefore, with respect to Canadian marketing targets, the key to success in expanding Canadian export business to Japan is to focus efforts on loins for manufacturing use.

Discussion about loins would not be complete without mention of pale, soft, exudite pork (PSE). PSE loins represent a dead loss to the Japanese processor. Under the highly competitive Japanese market, Canada can no longer afford to treat PSE as a matter of interpretation. In my experience, there have been many PSE-related problems with our customers who were ultimately uncompensated by Canadian plants. Regardless of PSE interpretations by plants, Canada must learn and adjust to the interpretation of PSE of its customers, the Japanese processors, if Canada is to maintain its market share.

I understand Canada now is 130% self-sufficient in hog production, and Canada has a great market just across the U.S. border. However, I realize there is a tough resistance and opposition from U.S. pork producers for the export of both Canadian live hogs and chilled and frozen pork cuts. This now has brought on countervailing duties, and the conflict may continue in coming years. Japan also is your neighbour and is just across the Pacific Ocean. It is also a huge market (see Tables 4.10 and 4.11).

The Japanese are well aware of the Canadian excellence in pork meat quality. In particular, Canadian loins are well suited to the Japanese production of cured loin hams for their firm, delicate meat texture and favorable color, which has been recognized for many years by Japanese end users. Canadian hog producers should strive

to maintain hog size uniformity, and PSE elimination should begin at this stage. These efforts of their part will be directly reflected in finished cuts.

In the past, Canada has entered into long-term contracts that guaranteed hog availability only and were subject to hog production, cost-piled fluctuations. These did not work well. Canadian producers should consider contracts that guarantee a fixed hog price, thereby enabling Canadian packers to engage in long-term contracts with Japanese buyers, similar to those with Danish suppliers. Danish long-term contracts establish a fixed price for certain cuts and quantity according to Japanese end users' requirements, specifications and quality control.

Although Canada is entirely different from Denmark in terms of market structure and relations between producers and plants, long-term contracts facilitate the implementation of quality controls, compared with spot base contracts. Such channelized business between Canadian packing houses and Japanese end users would foster mutual understanding, resulting in the recovery of Canada's lost market share.

The existing Japanese differential duty system works somewhat against Canada's ability to fulfill Japanese product requirements. It forces primal cuts in combinations that are not compatible with Canada's ability to supply either bellies or shoulders that meet Japanese requirements. Canadian bellies are unsuitable since they are sheet-ribbed and fattier than Danish or Irish products. Collars are supplied by Denmark and Taiwan, which are in constant supply. They are longer because carcasses are split between the fourth and fifth ribs, which suits the Japanese traditional market. So long as the current duty system is employed, individual cuts alone are more or less prohibited from being imported, as they do not meet the standard import price (SIP). If individual cuts could be imported, Canada could compete at the same level, and it would become simply a matter of quality and price.

I would like to be frank in expressing what I have learned in my business experience. I apologize in advance if it causes discomfort to Canadian producers.

There is a general feeling among Japanese importers and end users that Canada will sell to Japan when it is a better alternative to its domestic and U.S. markets. By and large, the Japanese feel Canadian suppliers pay only lip service to quality control and are unable to maintain consistent product quality. This was particularly evident during the outbreaks of foot-and-mouth disease in Denmark, when it was felt that Canada exploited the Danish situation by raising pork market prices to Japan. But when the cargo arrived, there were numerous problems with specifications.

I am Japanese but I work for a Canadian-affiliated company. My rice and green tea depend upon Canadian business and upon Canada's ability to maintain its position in the forefront of the Japanese pork industry.

In conclusion, part of Japan's economic success can be attributed to its ability to produce and sell with the export buyer in mind. Just as Japan's auto industry produces left-hand steering cars for your market, Canada must consider Japan's exacting needs and must endeavor to supply pork with right-hand steering!

TABLE 4.1 NUMBER OF HOG FARMS AND HOG POPULATION, JAPAN, 1965-85

Year as of February 1	Farms	Head	Change from previous year
		(000 head)	(%)
1965	701 560	3 975	14.9
1966	714 300	5 158	29.7
1967	649 500	5 975	15.8
1968	530 600	5 535	−7.4
1969	461 030	5 429	−1.9
1970	444 500	6 335	16.7
1971	398 300	6 904	9.0
1972	339 700	6 985	1.2
1973	321 100	7 490	7.2
1974	277 400	8 018	7.0
1975	233 400	7 684	−4.2
1976	195 600	7 459	−2.9
1977	178 900	8 132	9.0
1978	165 200	8 780	8.0
1979	156 300	9 491	8.1
1980	126 700	10 065	6.0
1981	111 800	10 040	−0.2
1982	100 500	10 273	2.3
1983	91 500	10 423	1.5
1984	83 100	10 718	2.8
1985	74 200	11 061	3.2

Source: Statistics of livestock industry, Ministry of Agriculture, Forestry and Fisheries, Japan.

TABLE 4.2 HOG SLAUGHTER AND PRODUCTION, JAPAN, 1965-85

Calendar year	Slaughter		
	Head	Carcass weight	Change from previous year
	(head)	(t)	(%)
1965	6 787 295	407 238	19.0
1970	11 479 399	734 294	25.0
1971	12 983 664	843 244	14.8
1972	13 045 224	885 306	5.0
1973	14 023 428	970 520	9.6
1974	15 693 705	1 097 924	13.1
1975	14 384 063	1 039 642	−5.3
1976	14 279 245	1 056 229	1.6
1977	16 080 801	1 169 465	10.7
1978	17 447 558	1 284 473	9.8
1979	19 225 815	1 429 928	11.3
1980	19 943 353	1 475 005	3.2
1981	18 708 979	1 395 843	−5.4
1982	19 109 689	1 427 626	2.3
1983	19 080 534	1 428 824	0.1
1984	19 257 713	1 424 204	−0.3
1985	20 638 965	1 531 914	7.6

Source: Meat statistics, Ministry of Agriculture, Forestry and Fisheries, Japan.

TABLE 4.3 PORK CARCASS STABILIZATION, LOWER AND UPPER PRICES, JAPAN, 1969-86

Fiscal year	Skinned carcass		Standard import price on cuts[a]	Duty	Scalded carcass	
	Lower price	Upper price			Lower price	Upper price
	(¥)		(kg)	(%)	(¥)	
1969	335	410	Import quota system	10.0	315	380
1970	345	422	Import quota system	10.0	325	392
1971	355	434	478	10.0	335	404
1972	360	440	485	10.0	340	410
1973	380	465	512	10.0	360	435
1974	507	620	684	10.0	487	590
1975	556	680	749	10.0	517	632
1976	601	734	809	10.0	559	683
1977	627	766	844	10.0	583	712
1978	627	766	844	10.0	583	712
1979	601	735	810	10.0	559	684
1980	588	764	819	10.0	547	711
1981	600	779	845	8.8	558	725
1982	600	780	861	6.9	560	725
1983	600	780	862	6.7	560	725
1984	600	780	862	6.7	560	725
1985	600	780	876	5.0	560	725
1986	540	760	825	5.0	500	705

[a] To obtain SIP for pork cuts: lower price + upper price ÷ 2 (midpoint) ÷ 0.75 (yield for cuts) ÷ (1 + duty rate); for example,
1986 SIP = (¥540 + ¥760) ÷ 2 = ¥650 (midpoint)
¥650 ÷ 0.75 = ¥866.66
¥866.66 ÷ 1.05 = ¥825.39

TABLE 4.4 PROCESSED MEAT PRODUCTION, JAPAN, 1965-86

Calendar year	Ham		Bacon	Sausage	Total	Change from previous year
	Cured loin hams, boneless hams and shoulder hams	Pressed hams, mixed pressed hams, chopped hams and others				
			(tonnes)			(%)
1965	7 276	59 338	2 955	66 309	135 878	9.0
1966	9 429	69 634	3 642	72 187	154 892	14.0
1967	10 662	75 073	4 282	82 783	172 800	12.0
1968	10 317	84 218	4 546	92 036	191 117	11.0
1969	11 156	94 646	5 049	103 396	214 247	12.0
1970	15 930	101 160	6 520	105 840	229 450	9.0
1971	19 150	105 210	8 100	118 380	250 840	9.0
1972	24 560	110 430	9 980	124 420	269 390	7.0
1973	28 710	109 170	11 880	129 280	279 040	4.0
1974	33 120	101 320	16 040	129 410	279 890	–
1975	33 906	104 625	16 950	143 800	299 281	6.0
1976	38 411	116 532	18 889	160 341	334 173	12.0
1977	49 575	126 894	24 507	177 876	378 852	13.0
1978	56 393	124 236	28 697	176 646	385 972	2.0
1979	66 437	119 224	33 728	179 696	399 085	3.0
1980	74 876	109 513	37 399	181 282	403 070	1.0
1981	80 996	101 903	40 194	188 138	411 231	2.0
1982	85 371	97 230	42 914	187 461	412 976	–
1983	88 058	96 643	45 544	203 526	433 771	5.0
1984	93 092	92 917	50 592	210 916	447 517	3.0
1985	98 176	86 136	54 274	227 498	466 084	4.0
1986[a]	87 847	71 293	52 023	230 828	441 991	7.0

[a] January to November

Source: Survey of processed meat production, Ministry of Agriculture, Forestry and Fisheries, Japan.

TABLE 4.5 PORK FOR HAM AND SAUSAGE PROCESSING, BONELESS EQUIVALENT, JAPAN, 1965-85

Calendar year	Quantity	Change from previous year
	(t)	(%)
1965	41 635	22.0
1966	50 253	21.0
1967	63 167	26.0
1968	64 414	2.0
1969	69 222	7.0
1970	88 970	29.0
1971	92 690	4.0
1972	103 930	12.0
1973	119 680	15.0
1974	126 540	6.0
1975	140 498	11.0
1976	149 091	6.0
1977	188 585	26.0
1978	202 594	7.0
1979	230 337	14.0
1980	260 331	13.0
1981	253 609	−3.0
1982	258 464	2.0
1983	269 068	4.0
1984	282 710	5.0
1985	302 407	7.0

Source: Survey of processed meat production, Ministry of Agriculture, Forestry and Fisheries, Japan.

TABLE 4.6 PRODUCTION OF HAMS AND SAUSAGES, JAPAN, NOVEMBER 1986

	Quantity	Change from previous year	Share of total
	(t)	(%)	(%)
Hams, total	87 847	4.2	19.9
Cured loin hams	58 731	6.4	13.3
Boneless ham from hams	19 746	−4.3	4.5
Others	9 370	10.9	2.1
Bacon, total	52 023	6.6	11.8
Sausage, total	230 828	14.3	52.2
Vienna sausage	142 795	22.5	32.3
Frank sausage	43 438	11.2	9.8
Bologna sausage	16 231	1.4	3.7
Others	28 364	−6.3	6.4
Pressed hams	19 606	−15.3	4.4
Chopped ham	44 980	−4.8	10.2
Mixed products	6 707	−21.2	1.5
Total	441 991	6.8	100.0

Source: Japan Meat Processors Association.

TABLE 4.7 JAPANESE PORK IMPORTS BY ORIGIN, 1965-86

Calendar year	Canada	Taiwan	Denmark	U.S.	Sweden	Ireland	Others	Total
				(tonnes)				
1965	–	–	–	5	–	–	65	70
1966	–	–	–	–	–	–	28	28
1967	–	–	–	1	–	–	–	1
1968	230	–	–	8 895	–	–	1 359	10 484
1969	1 965	–	–	28 983	–	33	11 671	42 652
1970	2 929	–	–	7 589	–	1	6 629	17 148
1971	9 264	–	–	14 264	–	10	3 665	27 203
1972	19 029	10 928	–	21 823	1 290	67	14 795	67 932
1973	20 202	33 758	30	41 096	10 552	1 795	18 306	125 739
1974	11 553	15 907	1 262	5 568	3 412	176	4 058	41 936
1975	25 687	7 597	23 640	43 032	12 964	571	11 021	124 512
1976	26 555	25 795	15 114	60 039	7 146	4 188	9 935	148 772
1977	34 959	17 910	15 562	24 591	5 143	3 094	6 851	108 110
1978	30 968	15 056	22 053	25 507	5 387	2 455	2 089	103 515
1979	32 536	15 315	41 097	32 657	5 731	2 605	2 221	132 162
1980	30 056	16 710	29 199	29 734	1 534	217	737	108 187
1981	43 286	19 906	73 053	39 761	8 029	669	1 043	185 747
1982	44 020	19 787	18 998	33 318	16 284	3 202	5 397	141 006
1983	41 828	32 860	17 676	35 413	19 349	10 580	7 745	165 451
1984	29 589	49 573	75 083	22 945	7 738	4 442	5 094	194 464
1985	21 944	66 929	77 433	11 906	4 488	2 834	3 587	189 121
1986	22 433	80 146	78 076	14 727	2 781	2 828	2 892	203 883

Source: Exports and imports, Ministry of Finance, Japan.

TABLE 4.8 TAIWANESE PORK EXPORTS, 1980-86

Calendar year	Total exports	Exports to Japan	
		Volume	Share of total
	(tonnes)		(%)
1980	23 835	16 440	69.0
1981	21 467	19 941	92.9
1982	21 677	19 996	92.2
1983	34 219	33 048	96.6
1984	53 046	51 017	96.2
1985	71 868	67 127	93.4
1986	–	80 146	–

Source: Taiwanese foreign trade statistics.

TABLE 4.9 PORK IMPORTS BY ITEM, JAPAN, 1986[a]

	Canada	Taiwan	Denmark	U.S.	Sweden	Ireland	Others	Total
				(t)				
Cuts:								
Loins	17 797	16 619	34 832	11 846	1 427	2 166	990	85 677
	(78)	(21.1)	(44.5)	(80)	(46)	(75)	(35.9)	(42.1)
Bellies	–	11 633	20 899	–	–	578	396	33 506
		(14.8)	(26.7)			(20)	(14.4)	(16.5)
Shoulders	1 141	19 112	12 133	592	310	–	481	33 769
	(5)	(24.3)	(15.5)	(4)	(10)		(17.4)	(16.5)
Tenderloins	2 054	2 493	9 471	1 627	279	87	311	16 322
	(9)	(3.2)	(12.1)	(11)	(9)	(3)	(11.3)	(8)
Hams	228	18 281	–	–	807	–	368	19 684
	(1)	(23.2)			(26)		(13.4)	(9.7)
Others	1 597	10 553	939	740	279	58	209	14 375
	(7)	(13.4)	(1.2)	(5)	(9)	(2)	(7.6)	(7.1)
Total	22 817	78 691	78 274	14 805	3 102	2 889	2 755	203 333
	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
Other forms:								
Carcass	4	3 734	35	4	–	–	60	3 836
Pork offals, diaphragms, etc.	1 272	23	3 609	511	89	31	62	5 597
Seasoned pork, etc.	34	3 327	286	233	486	–	342	4 708

[a] Percentage distribution of each country in parentheses

Source: Japan Meat Processors Association.

TABLE 4.10 PORK SUPPLY, CARCASS WEIGHT, JAPAN, 1965-86

Calendar year	Production[a]	Import[b]	Total
		(tonnes)	
1965	407 238	100	407 338
1970	734 294	24 499	758 793
1973	970 520	179 627	1 150 147
1974	1 097 924	59 909	1 157 833
1975	1 039 642	177 875	1 217 517
1976	1 056 229	212 531	1 268 760
1977	1 169 465	154 443	1 323 908
1978	1 284 473	147 880	1 432 353
1979	1 429 928	188 802	1 618 730
1980	1 475 684	154 554	1 630 238
1981	1 395 843	265 353	1 661 196
1982	1 427 626	201 437	1 629 063
1983	1 428 824	236 358	1 665 182
1984	1 424 204	277 806	1 702 010
1985	1 531 914	270 173	1 802 087
1986	1 5450 442	290 097	1 845 176

Source: [a] Meat statistics, Ministry of Agriculture, Forestry and Fisheries, Japan.
[b] Exports and imports, Ministry of Finance, Japan.

TABLE 4.11 MEAT SELF-SUFFICIENCY, JAPAN, 1982-86

Calendar year	Pork	Beef	Horse	Mutton	Chicken	Total
1982	87.6	72.6	5.9	0.1	92.0	81.0
1983	85.8	70.9	7.4	0.1	92.4	80.6
1984	83.7	71.6	8.2	0.1	92.6	80.2
1985	85.0	71.6	8.3	0.2	92.6	80.8
1986	84.0	68.1	10.0	0.2	88.7	78.8

5

The EEC Pork Industry

Knud Buhl
Director of International Affairs
Danish Bacon and Meat Council

The future of the EEC pork industry is based on a complex background. The factors range from ordinary market aspects to more general aspects such as increasing political pressure on agriculture policy and budgetary constraint.

Before pulling together the elements involved, I wish to describe the institutional structure of the EEC agricultural policy. Then I will take this opportunity to share some of my thoughts regarding the prospects for the pork industry.

It would be wrong to concentrate only on the instruments involved in the EEC pork regime, since our pork industry is affected by policy operations in other sectors. I would therefore like to start by describing some of the basic principles and mechanisms of the EEC agricultural policy.

The Common Agricultural Policy

The Common Agricultural Policy is based on five economic and social objectives. These do not differ much from objectives found in agricultural policies elsewhere in the world. In other words, the aim of the policy is:

- to ensure a rational production development,
- to ensure a fair standard of living for the agricultural population,
- to stabilize markets,
- to guarantee regular supplies, and
- to ensure reasonable consumer prices.

In order to achieve these objectives, the European Community has established policies covering 95% of all European farm products. The basic principles in all market regimes are:

- free trade within a European common market,
- Community preference, and
- joint financial solidarity.

Apart from free trade across the European borders, the principle of a common market also involves common rules for market management, including common prices and identical rules of competition. The market management rules vary from product to product. For products such as cereals, dairy products and beef, the market is supported by intervention prices. This means that when market prices fall below a certain price level, the Community intervention authorities are bound to buy up the produce offered to them and to stock it. For other products, in particular pork and poultry, the market is supported by more flexible and liberal means.

The principle of community preference is the logical extension of unity of the market. Because of the price structure established within the framework of the common market, EEC agricultural production is taking place against the background of a higher level of production costs than is found on the world market. In order to cover the balance between the production costs in the EEC and on the world market, export refunds are granted and import levies are imposed. Thus, free access to the Community market is ensured, but competition within the Community is protected.

The third basic principle in the Common Agricultural Policy, joint financial solidarity, speaks for itself. In practice it simply means that all common agriculture policy spendings pass through the Community budget. Having described the general lines of the EEC Common Agricultural Policy, I may now turn by way of example to the EEC pigmeat regime.

EEC pigmeat regime

An underlying feature of the EEC pigmeat regime is that pigmeat is treated as a cereal-based product, and there are close links between the cereals and pigmeat regimes.

The techniques of the pigmeat regime can be divided into internal support mechanisms and measures affecting the trade with third countries.

Compared with other regimes, the internal support mechanisms are of a very simple nature, mainly because intervention in the form of support buying from the market is not practiced by the pigmeat market management. Although intervention is theoretically foreseen in the regime, it has been used only twice in EEC pigmeat history, namely in 1968 and in 1971.

The only internal support instrument used in the pigmeat sector is aid for private storage. This means that when the EEC market is weak, the Community may decide to encourage traders to withdraw quantities from the market. In other words, fixed amounts of aid are granted to traders when they store fixed quantities of specific types of pigmeat for specified periods of time, typically four to seven months. The fixed amounts are calculated to cover the operators' loss of interest and storage costs.

In the management of the private storage instrument, the Community typically encourages traders to store during the seasonally weak demand months of spring and summer and to take out of storage in the firmer demand months of autumn. Although the quantities and funds involved in the private storage arrangements are small, the opening up of storage possibilities has a very strong psychological effect on the market.

Turning to the measures affecting the EEC trade with third countries, the two main instruments in the pigmeat regime are import levies and export refunds. The two instruments were introduced in the pigmeat regime to cover the difference in costs of producing pigmeat inside and outside the Community. By way of simple description, the level of the two instruments is calculated from the difference between the world cereal prices and the EEC cereal price level. The calculation is subject to quarterly revision. In the calculation, the world cereal prices are obtained as the average of the EEC import prices of barley, maize, oats, rye and sorghum, quoted CIF Rotterdam.

Along these lines the import levies are automatically fixed every quarter. The export refunds, however, are fixed in a more arbitrary way. Here the quarterly calculated difference between world market prices and EEC production costs only serves to fix the absolute maximum level of refunds.

Mainly in order to save budgetary funds, the Community keeps the refund level considerably lower than the guiding maximum level. Over the past two years, the average EEC pigmeat refund level has been only 20% of the theoretical calculated level. Among other things, this reflects the Community's budgetary situation.

To deviate further from the theoretical description, it could be mentioned that today a Danish pig producer pays around $217 a tonne for feedgrain. His American colleague pays only $96 a tonne for feedgrain. If at the same time a Danish pig is exported to the world market, only a small part of this difference in production costs would be recovered in recent years.

The question to ask then is: How can EEC producers manage to export pigmeat? The answer to this question is simple: by avoiding low-price bulk markets, they concentrate more on markets where the difference in production costs is compensated for by high prices for high-quality and high value-added products.

Common Agricultural Policy problems

Having described the more general structure of our Common Agricultural Policy, I will now turn to the problems we are facing and their impacts on the markets.

In recent years the situation in the EEC has been characterized by a growing imbalance, particularly on the markets for milk, beef and cereals. Together with similar problems characterizing the general world market situation, this has led to a sharp increase in the EEC agricultural budget expenditures. Furthermore, the budgetary situation has been aggravated by the falling value of the U.S. dollar against EEC currencies. The EEC agricultural budget in 1986 is shown in Table 5.1.

The budget clearly indicates the sectors facing balance problems. It may be noted that although the EEC pigmeat sector is of the same economic size as that of milk and beef, pigmeat takes up only 1% of the total budget, while the similar percentages for milk and beef are respectively 28% and 12%.

It may also be noted that the spendings in the cereal sector in the EEC are used to keep cereal prices high, contrary to the U.S. situation, where the budget is used to keep a low cereal price level. Finally, it might be added that although the total budget is high, it now is smaller than the U.S. agricultural budget.

The budgetary constraints in the EEC have led to increasing political pressure on the Common Agricultural Policy. In this light our Council of Ministers has decided upon a number of major

changes in the Common Agricultural Policy over the past two years in order to remedy the market imbalances. Although the pigmeat sector is not directly affected by the policy revisions, it is, however, indirectly affected in many ways.

In the milk regime, production quotas were introduced in 1984. Due to further reductions in this quota, decided on in December 1986, an extra 2 million dairy cow slaughterings are scheduled. Furthermore, the pressure on the beef market will be increased as a result of reductions of more than 10% in the intervention price level. The decisions concerning milk and its sister industry, beef, mean that the EEC pig market is faced with increased competition from beef.

In the cereal sector the antidote to imbalance is a restrictive price policy, which is about to be continued with a further price reduction of approximately 12% for the coming year. In addition a cereal co-responsibility levy is paid by the producers. The cereal policy antidote might have solved part of our problems if it had not been for the reductions in the U.S. loan rates.

As an automatic market effect of the cereal price reductions, the prices of pigmeat in the EEC are following the same downward trend. This development has a major long-term impact on the structure of the pigmeat sector. Thus the production economy for farmers, who have based their pigmeat production on home-grown cereals, is being eroded. On the other hand, the cereal price development might make the EEC pigmeat export more competitive, except for a similar cereal price development on the world market.

Issues facing the EEC pigmeat sector

Having described the general framework for producing pigmeat in the EEC, I will now concentrate on the main issues facing the pigmeat industry.

Next to China, the EEC is the world's second most important pigmeat area, with 21% of the world's total pigmeat production. In terms of consumption per capita, however, the EEC is the world's foremost consumer, at 39 kilograms per capita consumed, compared with 34 kilograms per capita consumed just 10 years earlier.

The pigmeat production in 1986 amounted to 10.8 million tonnes, compared with 7.4 million tonnes of beef, 4.5 million tonnes of poultry and 0.7 million tonnes of sheepmeat.

Pigmeat is therefore the most important meat produced in the Community, although in Britain and Ireland beef production tends to be greater than pigmeat production. The most important producer in the Community is West Germany, which alone accounts for almost one third of EEC production (Figure 5.1).

The type of pigs produced varies considerably from one country to another, ranging from production of heavy-weight pigs for the manufacturing markets in West Germany and Italy to production of light-weight pigs for the specialized pork and bacon market in Britain. Allowing for cyclical trends, total EEC production has expanded steadily during the past 15 years. The most marked long-term growth has been in The Netherlands and Italy.

Consumption of pigmeat has followed the production trend, and the market has a tradition of relatively good balance between supply and demand. Pigmeat consumption in the EEC accounts for 47% of total meat consumption, compared with 30% in the case of beef and 19% for poultry.

The internal EEC trade flow is roughly determined by a situation where The Netherlands, Denmark and Ireland are net exporters, and the other EEC countries are net importers.

The main trade flows between the EEC and the rest of the world involve imports particularly into Italy, West Germany, France and Belgium from eastern European countries. Exports mainly of frozen pork are sent to Japan and the Far East, particularly from Denmark and Ireland, and there is also an important export trade in pork and canned meat products to North America.

The volume of the total EEC imports and exports in 1986 was respectively 140 000 and 400 000 tonnes carcass weight. The main share of the imports consists of live pigs and fresh and frozen products. On the export side, there is a 50:50 distribution between fresh or frozen and processed meat.

Danish exports account for 84% of EEC pigmeat exports to third countries. The main market for Danish exports, however, is the other EEC countries.

Present situation and outlook for the EEC pigmeat market

In recent years the effect of EEC cyclical movements has appeared to move pig production gradually upward instead of the usual ups and downs.

In 1986 production in the EEC increased to another record level of 10.8 million tonnes (EEC-10). The increase resulted from the strong cyclical increase in the pig breeding herd that commenced in 1984 and was further boosted by good profitability in 1985, when the reduction in prices was offset by a fall in feed prices.

Although the high production level in 1986 brought an increased level of consumption, the pigmeat market has weakened through 1986, and prices fell to the lowest level since 1980. In real terms the price reduction was 13%.

Apart from a high pigmeat availability, a serious situation was triggered by plentiful supplies of other meats and a shrinking export, mainly as a result of a lower U.S. dollar and difficulties of competing wih Taiwan on the Japanese market. The problem with third-country markets led Denmark to increase its trade with other EEC countries. There was a large increase in Danish shipments to France and Italy, but sales of bacon to Britain showed a modest decline.

The price development in 1986 meant that the profitability in EEC pig production could no longer be maintained, despite the reduction in feed prices.

Although the low profitability should bring a decline in 1987, pigmeat availabilities are still expected to increase in the beginning of the year, leading to a moderate production increase in 1987 as a whole. Furthermore the oversupply of other meats will be increased because of EEC policy in the dairy sector. In addition, the competition from other meat will be increased as a result of political decisions on substantial reductions of beef intervention prices.

On the export side, a recovery in 1987 is unlikely. One of our major problems seems to be the situation on the Japanese market.

In the first part of 1986, Japanese imports increased steadily as a result of a strengthening of the yen against the currency in supplying nations. Later in the year reduced pigmeat prices in Japan quickly ended this development, and the overall increase for the year was only modest.

A low market price level is expected to continue throughout 1987, and imports will slow, unless the standard import price is reduced.

Japanese pork imports are dominated by Denmark and Taiwan. In 1986 Taiwan significantly increased its share at the expense of other suppliers and became the leading external pigmeat supplier to Japan. It is our impression that not all exports to Japan are treated equally and that the Taiwanese might continue the line of expansion in the years ahead.

Additional issues

Besides the market situation and the Common Agricultural Policy, there are additional issues on the consumer side, as the meat industry is coming under increasing pressure from health and environment lobbies.

From an immediate point of view, one might jump to the conclusion that the situation in the EEC is full of problems. The problems, however, are coupled with a number of solutions.

First of all there is a better balance ahead on the EEC livestock markets. The key issue is that the increase in dairy cow slaughterings, which causes problems at present, will bring about a significant long-term fall in production. From 1989 onward, a beef production level well below the EEC level of consumption is predicted. This will, of course, decrease the competiting pressure on the pigmeat market.

In order to take advantage of the better market balance ahead, the pork industry must encourage production of meat corresponding to consumer demand. In the past such response, however, has led to an unwanted selection for pale, soft, exudate pork (PSE) linked to the selection for lean carcasses.

It does, however, seem obvious that the consumer wants to continue to buy lean pigmeat. The solution is therefore a lean and stress-resistant pig. The Danish PSE problem, however, is not significant in comparison with the general European situation. The PSE syndrome is furthermore being avoided by better transport, holding and stunning techniques.

On the future EEC market, it will furthermore be possible to take advantage of an increasing demand for higher processed and prepacked products; it will be possible to increase the market in terms of value by developing new products.

In summary, the EEC problems are as follows:

- increasing pressure on the Common Agricultural Policy,
- continuously depressed livestock markets, and
- increasing pressure from health and environment lobbies.

The solutions to these problems involve:

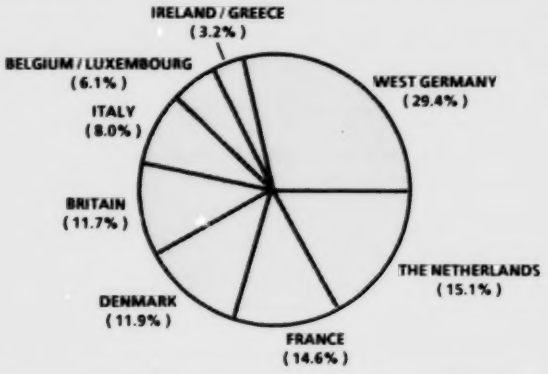
- better market balance ahead, beginning in 1988-89,
- balancing production of meat with consumer preferences,
- developing new products, and
- improving consumer information and product presentation.

The overall conclusion would be that the EEC pigmeat industry has a number of challenges in the years ahead.

TABLE 5.1 EXPENDITURES ON COMMON AGRICULTURAL POLICY, EEC, 1986

	European Currency Units	Proportion
	(million)	(%)
Cereals, olive oil, oil seeds, etc.	6 965	31.5
Wine and tobacco	1 879	8.5
Sugar	1 642	7.4
Fruit and vegetables	928	4.2
Milk	6 100	27.6
Beef	2 682	12.1
Sheepmeat	526	2.4
Pigmeat	220	1.0
Eggs and poultry	131	0.6
Monetary Compensatory Amounts and others	1 039	4.7
Total	22 112	100.0

FIGURE 5.1 DISTRIBUTION OF EEC PIG SLAUGHTERINGS



6

The Outlook for the Canadian Hog Sector, 1987-91

Merritt Cluff, Alan Boswell and Pierre Charlebois
Policy Branch
Agriculture Canada

The Canadian hog sector is arguably the most dynamic, efficient and well-organized sector of Canadian agriculture. The sector has exhibited substantial growth during the past 20 years. Structural and technological changes have moved it into an international position where it is recognized for the quality and value of its product. The Canadian hog sector has been transformed into one of the most cost-efficient and competitive hog industries in the world.

Notwithstanding these characteristics, the sector still faces critical economic challenges and adjustments as its producing and marketing environment changes from day to day and from year to year. It is precisely these challenges and adjustments that have transformed this sector into its current competitive position. In terms of the short- and medium-term outlook in Canada, these challenges will take the form of intensified competition both among hog producing nations and among meat producers generally.

The objective of this paper is to discuss the outlook for the Canadian hog sector with a particular reference to the medium-term outlook over the next five years. The emphasis of this outlook statement is on the economic factors that will be exerted on the sector, given its current marketing framework. The focus of this paper is therefore on the economics of the outlook and on the economic forces that can be expected to affect the sector. The paper proceeds by first outlining the current setting of the industry and then by examining specific economic factors in the outlook. A subsequent section summarizes what impact these factors will likely have on the sector in terms of an outlook statement. A concluding section provides summary remarks.

The framework of the Canadian hog sector

The Canadian pork industry is an international industry. It is therefore important to understand its place in the world market and to grasp its price formation process and the nature of its markets. It is also important to understand its supply base.

Figure 6.1 illustrates Canada's stand with respect to its share of world pork production. Figure 6.2 shows Canada's rank as an exporter of pork. Of Canadian pork exports, the greatest share is focused on two markets: the U.S. market and the Japanese market. Figure 6.3 illustrates that these two markets are the two largest importing markets of the world. Canada historically has been a major player in both markets.

Table 6.1 shows the recent changing nature of Canada's market share in the Japanese market, and underscores how this market share has dwindled recently. In contrast, Canada's share of the U.S. market has remained steady at about 50% in volume terms in recent years, and access to this market has been critical to Canadian producers. An important point to note is the difference in opportunity these markets present to Canada. The U.S. market is largely an open market whereas the Japanese is what one might call a closed or non-economic market. Access to the Japanese market is limited and is not entirely related to competitive price factors. Even gains in market share are difficult, given the nature of export subsidies offered by competing exporters.

Figure 6.4 illustrates the basic disposition characteristics of the hog sector in Canada during the first half of the 1980s. On the disposition side, the figure illustrates the extent to which the sector has an international basis and indicates the very fundamental importance of the U.S. hog market to the welfare of the Canadian industry. The importance of other external markets pale in comparison,

although this is understated, since trade has grown so significantly since 1980. Figure 6.5 illustrates the fundamental fact that the Canadian hog sector is truly a national industry, with significant production in each region of the country.

Figures 6.6 and 6.7 make clear the growth in the movement of hogs and pork outside Canada. A major feature of these figures is the growing reliance in relative terms of the sector on the U.S. market. In 1985-86, fully 26% of Canadian hogs in one form or another found their way into the U.S., and only 2% went to other countries. These basic facts are known to most who are familiar with the industry.

While Canada's net trade position has grown strongly positive during the 1980s, its interdependence with the international market has long been established. Perhaps the most important and salient feature of the current marketing setting of the sector is its implication for price formation in Canada. It has often been repeated that Canada, while producing some 12% to 14% of the North American hog supply, is a price taker in this market and prices are consequently set largely in the U.S. market. A quick examination of Figure 6.8 illustrates this important relationship.

If this were precisely true, the implication is that Canada by and large would not face much lower prices if it increased its supply. This is a favorable characteristic not enjoyed by other major hog producers. Estimates show, for instance, that in the U.S., a 10% greater supply of hogs on the market causes prices to decline by as much as 20%. In Canada, a greater supply of pork may not depress the domestic price much below the U.S. price, and this supply is not likely to substantially reduce prices in that market. In other words, once on an export basis, for instance, according to the price-taker view, increases in supply in Canada would find a ready market without having to reduce prices signifcantly to sell the product. On the other hand, a real problem to be faced is the effect of large quantities of imports on heightened concerns of pork producers in the U.S.

As Figure 6.9 makes more explicit, however, while the overall movements of U.S. and Canadian prices have been very close, the actual price differential shows important exceptions. For instance, on an import basis such as during the 1976-78 period, the Canadian price (using Index 100 Ontario hogs) was about $5/cwt above the U.S. price (barrows and gilts, 7 Markets), while on an export basis the Canadian price has been as much as $14/cwt below the U.S. price. Consequently, Canada's trade position can substantially alter prices received by producers, even if the short-term prices in the U.S. and Canadian markets move closely together.

Perhaps more significantly, studies illustrate that the price differential not only depends on the extent of net exports of pork but also is sensitive to exports of live hogs. Figure 6.9 also illustrates the close relationship between exports of live hogs in eastern Canada and the price differential. The relationship appears less sensitive as the volume of live exports increases. The importance of this characteristic is that surplus hog production serves to depress producer prices more significantly if the Canadian packing sector cannot absorb this surplus. Live hog exports incur relatively higher export costs and serve to depress domestic prices. Of course, the Canadian-U.S. price differential depends also on the existence of tariffs, such as the countervail tariff of $4.39/cwt. However, in this latter case, one can appreciate that the tariff encourages lower live exports, which in turn lowers the price differential. To this extent the effects of a tariff on live hogs only are somewhat less than the full amount of the tariff.

Economic factors conditioning the outlook

Given the framework under which the hog industry in Canada operates, numerous factors will drive the sector in the outlook period. The major significant factors are:

- feedgrain prices,
- the course of the American hog sector,
- domestic demand and macroeconomic influences, and
- government programs.

Feedgrain prices

As indicated in the discussion of the outlook for the American pork sector, the highlight of any agricultural outlook these days is the current and projected world grain market situation. The 1985 U.S. Farm Bill has set a course for a significantly lower level of world grain prices than has prevailed thus far during the 1980s. In terms of feedgrain prices, prices of corn in the U.S., which peaked in the early 1980s at about $130/t, are currently at half that value and are expected to move to lower levels in 1987 and to remain at these levels for the next few years, before increasing gradually through to 1991. These world grain prices have filtered through to the Canadian livestock sector. Figure 6.10 interprets hog feeding costs in terms of dollars per hundredweight of

dressed hog carcass. It shows that hog feed costs, which peaked at 41 cents per pound of dressed hog carcass in 1983, started falling in 1985-86 and will slide to 29 cents per pound of dressed hog carcass by 1988-89, before climbing marginally.

Low feedgrain prices always translate into lower hog prices somewhere down the pipe. However, another major phenomenon that arises as a result of low prices is supply response by region. Surplus grain producing areas such as western Canada and the U.S. midwest have exhibited much more sensitivity of hog production to grain price movements than have feed deficit or feed self-sufficient areas such as eastern Canada. This iy region. Surplus grain producing areas such as western Canada and the U.S. midwest have exhibited much more sensitivity of hog production to grain price movements than have feed deficit or feed self-sufficient areas such as eastern Canada. This is because grain producers have the option to market excess grain through livestock. The issue is that low grain prices may affect the regional location of hog production, implying that eastern Canadian producers may face a competitive disadvantage with low grain prices. In practical terms, this may mean that eastern Canada's market share may shrink as the other regions expand hog output relatively more.

U.S. livestock prices

The outlook for the U.S. hog sector has been thoroughly analyzed. It is clear that in response to lower grain prices, U.S. pork and poultry prices are on the way down, whereas beef prices may be up during the next few years in response to beef herd rebuilding activity. Obviously, the course of U.S. hog prices . It is clear that in response to lower grain prices, U.S. pork and poultry prices are on the way down, whereas beef prices may be up during the next few years in response to beef herd rebuilding activity. Obviously, the course of U.S. hog prices will directly affect the course of Canadian hog prices, barring a significant movement in the price differential between these two markets. Analysts in the U.S. however, are not unanimous in either the timing or the extent of the expected drop in hog prices. For instance, some are predicting that hog prices will remain reasonably flat on average in 1987 compared with 1986 performance, with some decline starting in mid-1987 and continuing in 1988. Other analysts are calling for a more significant decline in 1987, with prices continuing to slide for four consecutive years to 1990 before increasing. Still other analysts are predicting lower prices but they expect hog prices could dip as low as U.S. $30/cwt by 1990. The real question is twofold: first, red meat has shown weakness in recent years and, second, the extent of rebuilding in the beef sector may positively affect prices for other meats.

Forecasters in the U.S. and Canada have cited changing demand preferences as being a major factor in the expected relative weakness of pork and beef, compared with poultry demand. Much has been said about this issue, and dietary and health arguments have been used in support of such a change, as have demographic and sociological reasons.

For instance, it has been speculated that increased participation in the work force has affected consumer preferences for easier-to-prepare foods, and has increased expenditures on food away from home. However, while these factors are no doubt important, it is useful to reexamine this issue from a very simple price perspective. In terms of trends in American prices, Figures 6.11 and 6.12 make that clear poultry prices over time have increased less than have prices for other meats. This is certainly one factor why poultry demand has risen relative to that for pork and especially beef. At bottom, productivity growth in poultry has exceeded that of other meats. The future period of low grain prices may serve to increase the competitive advantage of this sector, since grain costs are such a high proportion of the cost of production.

Domestic factors

Some 75% of the hogs produced in Canada are consumed domestically. While prices to producers are largely determined in the international market, domestic factors such as beef and poultry prices and macroeconomic factors such as disposable incomes, employment, wages and inflation play an important role in domestic consumption and processing of pork in Canada.

These factors recently have also affected the size of Canada's exportable surplus of hogs and pork. Table 6.2 outlines the anticipated course for these factors. Beef prices are expected to rise throughout the period to 1990, in line with similar movements in U.S. prices. Poultry prices are expected to decline throughout the period and then to increase in line with grain prices.

On the macroeconomic front, the Conference Board of Canada expects that the national economy will grow only modestly during the period from 1987 to 1991, although growth will be marked by relative stability. Previous demand studies suggest that a 10% increase in disposable income

increases pork demand by about 5%. Perhaps the most critical domestic factor that may affect the hog sector is the exchange rate. So far in 1987, the Canadian dollar has appreciated in value from about 72 cents U.S. to about 75 cents U.S. This 4% appreciation is estimated to lower hog prices in Canada by about 3%. Analysts do not anticipate any further appreciation, but changes in the exchange rate are very difficult to anticipate.

Government programs

Governments play a significant role in agriculture. In Canada in 1986, government direct income programs amounted to about 60% of realized net income. In the hog sector, support takes the form of stabilization programs that involve significant producer involvement. It is important to recognize that these programs affect the performance of the sector and serve to stabilize farm production and producer returns. Currently about 50% of Canadian hog production is covered under the National Tripartite Stabilization Program, while producers in British Columbia, Quebec and the Atlantic provinces are covered by provincial programs. These programs can be expected to create a more positive and stable environment for producers.

The outlook

Given the framework under which the hog sector works and given the key factors that may be present, the outlook period can be examined. What does the future hold for hog prices in Canada? What levels of output will be forthcoming and from where? How will the trade balance fare over time? These are the bottom-line issues for hog producers.

Prices

Given the outlook for U.S. prices, expected values for the exchange rate and for the price differential with the U.S. markets, which is currently $8-12/cwt, hog prices in Canada can be expected to fall in 1987, except for normal seasonal fluctuations, continuing to 1991 (Table 6.3). Hog prices in Toronto, which are currently about $73/cwt, are expected to average about $76/cwt for 1987 and to slide down year by year to the $56/cwt level by 1990. This is a risky forecast; it is very rare to expect hog prices to continue downward for five years running.

Marketings

With very low feed prices and with recent high profitability ratios, marketings of hogs in Canada are expected to start increasing year over year in the second quarter of this year and to continue to increase through to 1990 (Table 6.4). Hog marketings in Canada are expected to exceed 16 million head by 1990. A major feature of the forecast is the expected response of the western hog sector relative to that of the east. The western producers are expected to increase marketings by 15% over the period whereas eastern producers are expected to increase output by 9%. More stability has been shown in the east thus far during the 1980s, and the reaction of eastern producers to lower feed prices is expected to be more muted than in the west. Total pork output (cold carcass basis) is expected to be 12% higher by 1991 than it was in 1986.

A critical issue with respect to supply response is the degree to which stabilization programs will affect marketing patterns for hogs and the reaction of U.S. trade measures to stabilization payment levels. Stabilization programs will help the industry to weather market price declines.

Disposition

With significantly lower prices of pork expected and with higher prices of beef, consumption of pork is expected to match increases in pork output over the outlook period (Table 6.5).

As a result of production and consumption patterns, trade in pork can be expected to stabilize over the period. Some increases can be expected, but increases in trade in pork witnessed in the previous two years are expected to taper off. Given countervail duties, exports of live hogs can be expected to stay at lower levels. If countervail duties are extended to cover pork, the levels of live hog exports may start increasing again.

Risks in the outlook

Forecasting is full of risks. Outlook information is useful because it illuminates the future and the issues we face. In this forecast, risks associated with forecasting grain prices could substantially alter the outlook that has been suggested. Table 6.6 illustrates what could happen to hog production should grain prices rise or fall as a result of policy change in the U.S. or as a result of other developments among major world exporters of grain. The high grain price scenerio shown here represents the results expected if the U.S. alters the Farm Bill and ceases to deplete its inventories so aggressively. The low grain price scenario presents a possible outcome if the Farm Bill is altered

to uncouple payments from grain production decisions. These alternatives are speculative and are not as likely as the base chosen for this outlook. But they do indicate the extent to which the future course of the hog sector in Canada is sensitive to U.S. grain policies.

Conclusion

Although the main focus of this workshop is on marketing alternatives, it is perhaps ironic that the main highlight of the outlook for the hog sector is on the supply side. Low feedgrain prices and the adjustment of the livestock market complex are stealing the show in most recent outlook statements. As a result, the main feature of the outlook is higher hog supplies and a substantial downward adjustment in prices; the disagreements on this issue appear to be relative to when the adjustment started, how long it will continue and just how low prices will go. On the other hand, it is timely to reexamine marketing approaches in the context of strategy; that is, how to market additional supplies of hogs. This outlook may appear to be a pessimistic one, but in the last 15 years the hog industry in Canada has demonstrated a remarkable ability to compete in times of adversity, and has continually shown resilience to difficult market conditions.

TABLE 6.1 PORK IMPORTS BY PRODUCT WEIGHT, JAPAN, 1981-86

Country of origin	1981	1982	1983	1984	1985	January 1 to December 1	
						1986	Change from year earlier
			(thousand t)				(%)
Denmark	72.4	18.9	17.7	75.1	77.4	72.1	n.c.
% of total	39	13	11	38	41	38	
Taiwan	19.7	19.7	33.1	50.7	67.8	74.3	+23
% of total	11	14	20	26	36	39	
Canada	42.6	43.6	41.8	29.6	22.0	21.2	+10
% of total	23	31	25	15	12	11	
United States	39.1	32.8	35.4	22.9	11.9	13.1	+31
% of total	21	23	21	12	6	7	
Others	9.8	26.2	38.3	17.3	11.1	7.9	-33
% of total	5	19	23	9	6	4	
Total	183.6	141.2	166.3	195.6	190.2	188.6	+10

TABLE 6.2 FACTORS AFFECTING CANADIAN PORK CONSUMPTION, 1987-91

	1987	1988	1989	1990	1991
Meat prices					
A1, A2 steers ($/cwt)	85.41	92.20	94.10	91.20	86.68
% change	2.8	7.9	2.1	−3.1	−5.0
Chicken (¢/kg)	107.54	101.91	103.07	108.05	112.04
% change	−1.6	−5.2	1.1	4.8	3.7
Macoeconomic factors					
Disposable incomes ($/capita)	10 167	10 224	10 133	10 106	10 101
% change	1.4	0.6	−1.0	0.0	0.0
Unemployment rate (%)	9.3	9.1	8.9	8.8	8.4
Consumer price index	138.7	145.5	153.7	161.5	169.5
% change	4.6	4.9	5.6	5.1	5.0
Interest rate	9.4	10.3	10.58	10.52	9.67
Exchange rate	1.386	1.393	1.396	1.398	1.394

TABLE 6.3 HOG PRICES, CANADA AND U.S., 1985-91

	Actual		Forecast				
	1985	1986	1987	1988	1989	1990	1991
				(Can $/cwt)			
U.S. 7 markets	79.39	93.18	85.15	77.84	67.41	65.83	66.86
Ontario average	68.50	81.57	76.09	70.00	59.90	56.70	56.60
Differential	10.89	11.61	9.06	7.84	7.51	9.13	10.36

TABLE 6.4 COMMERCIAL HOG MARKETINGS, INSPECTED SLAUGHTER PLUS LIVE EXPORTS, 1987-91

	Actual		Forecast				
	1985	1986	1987	1988	1989	1990	1991
				(million head)			
Canada	15.0	14.3	14.6	15.3	15.9	16.3	15.9
% change	2.6	−4.5	2.2	4.7	3.8	2.5	−2.2
West	5.0	4.7	4.8	5.2	5.5	5.6	5.4
% change	7.8	−6.3	1.6	7.4	5.5	2.5	−3.0
East	9.9	9.6	9.8	10.1	10.4	10.6	10.5
%change	0.1	−3.6	2.4	3.4	2.8	2.4	−1.7

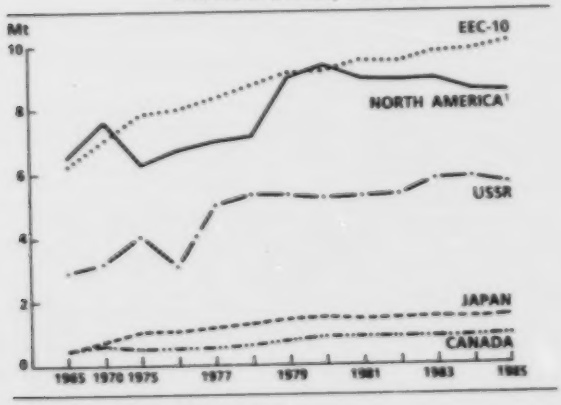
TABLE 6.5 TRENDS IN PRODUCTION, EXPORT AND CONSUMPTION OF PORK, 1985-91

	Actual		Forecast				
	1985	1986	1987	1988	1989	1990	1991
			(thousand t)				
Pork output	945	907	926	968	1007	1030	1016
% change	2.9	−4.0	2.1	4.5	4.0	2.4	−1.4
Total net exports	253	238	267	272	283	288	257
% change	3.3	−6.0	12.2	1.9	4.0	1.8	−11.0
Domestic disappearance	694	670	656	696	728	743	760
% change	3.2	−3.5	−2.1	6.0	4.7	2.0	2.3

TABLE 6.6 IMPACT OF ALTERNATIVE GRAIN PRICES ON HOG PRODUCTION, 1987-91

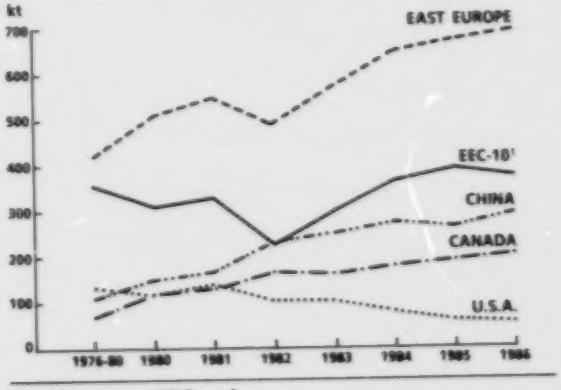
	Production change from baseline forecast				
	1987	1988	1989	1990	1991
			(%)		
Higher grain prices					
Barley	2.2	13.6	16.9	19.0	19.2
Corn	4.9	20.3	20.4	20.6	20.8
Hogs	0.0	1.5	7.6	14.7	18.0
Lower grain prices					
Barley	−18.0	−10.5	−5.4	−13.8	−11.0
Corn	−20.3	−20.0	−9.6	−10.7	−10.3
Hogs	0.0	−6.9	−17.6	−12.8	−9.1

FIGURE 6.1 PORK OUTPUT, MAJOR PRODUCERS, 1965-85



[1]Canada, U.S. and Mexico

FIGURE 6.2 MAJOR PORK EXPORTS, 1976-86



[1]Excludes intra-EEC trade

FIGURE 6.3 MAJOR PORK IMPORTS, 1976-86

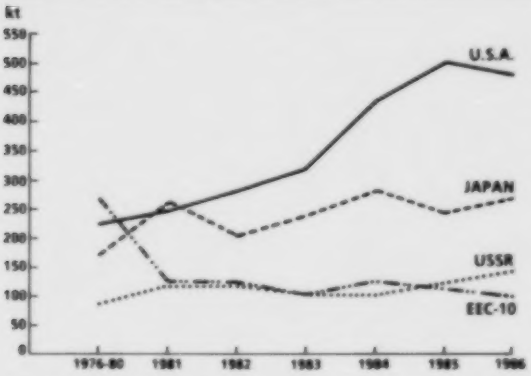


FIGURE 6.4 DISPOSITION OF CANADIAN HOGS, 1980-86

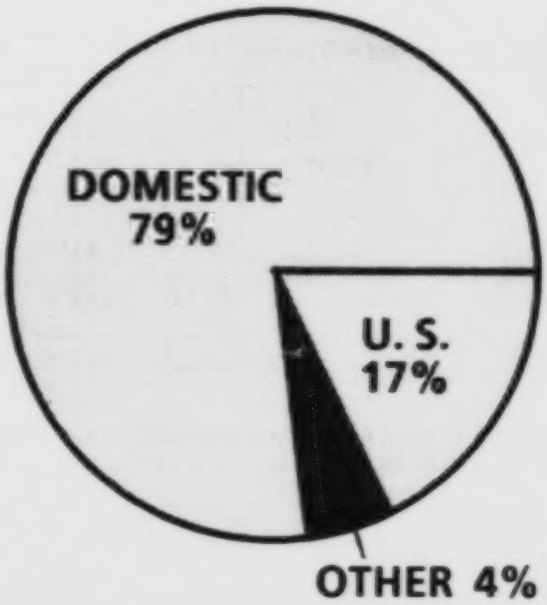


FIGURE 6.5 SUPPLY OF CANADIAN HOGS, 1980-86

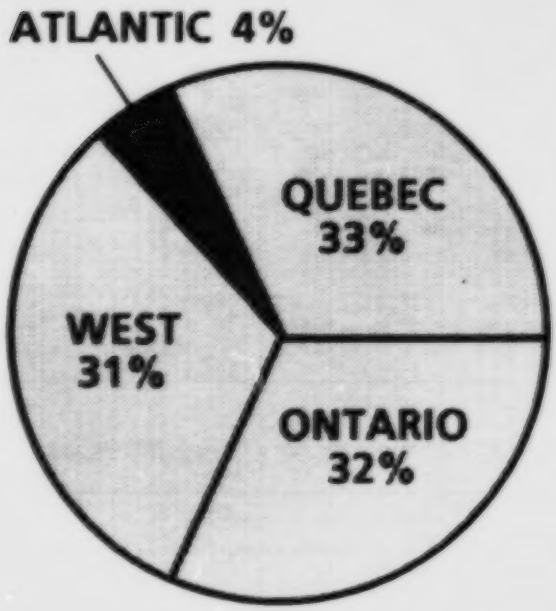


FIGURE 6.6 NET EXPORTS OF HOGS AND PORK TO U.S., COLD CARCASS BASIS

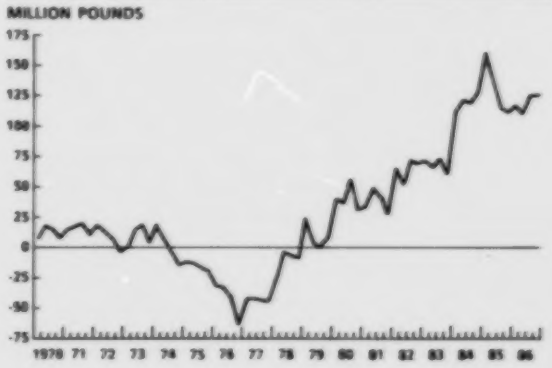


FIGURE 6.7 NET EXPORTS OF PORK TO COUNTRIES OTHER THAN U.S., COLD CARCASS BASIS

FIGURE 6.8 U.S. AND CANADIAN PRICE MOVEMENTS, 1970-86

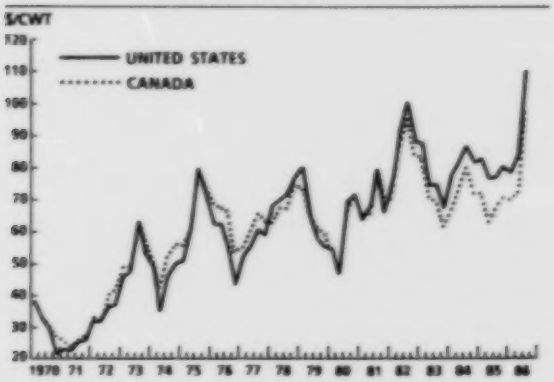


FIGURE 6.9 ONTARIO-U.S. PRICE DIFFERENTIAL AND LIVE HOG EXPORTS, 1970-86

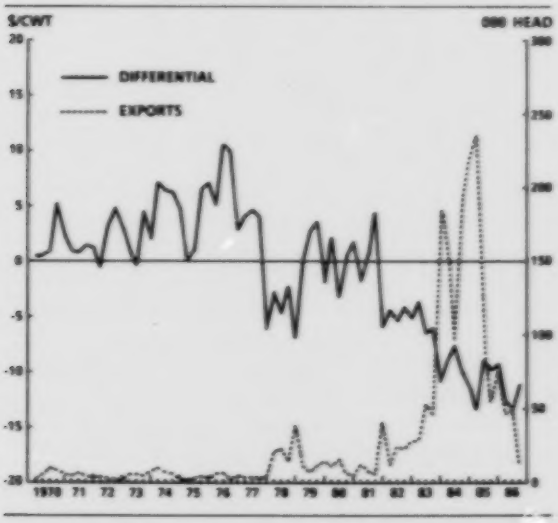


FIGURE 6.10 HOG FEEDING COSTS, 1970-91

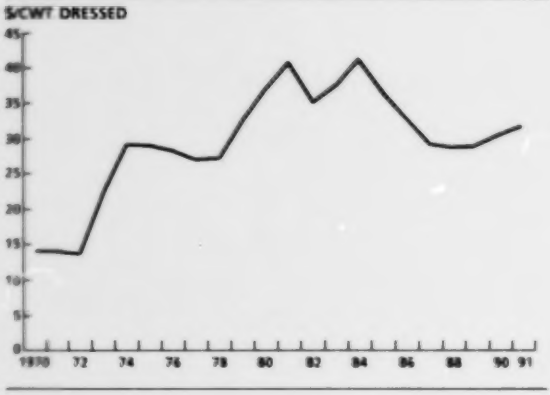
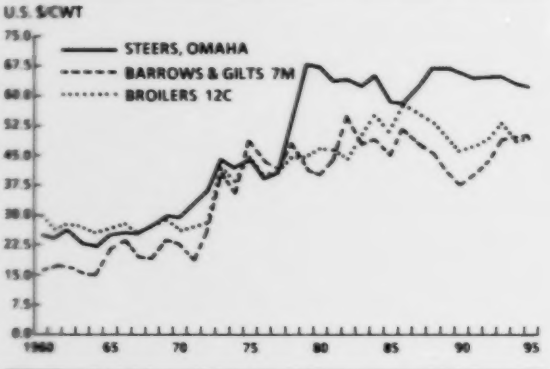
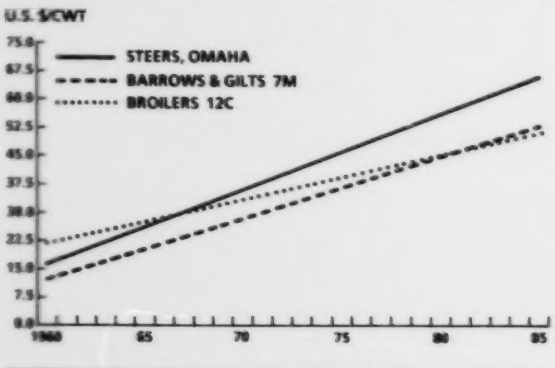


FIGURE 6.11 MEAT PRICES, U.S., 1960-95



Source: 1987-95 forecast by Chase Econometrics

FIGURE 6.12 MEAT PRICES, UNITED STATES, AVERAGE ANNUAL INCREASE, 1960-85



7

Status of Canada-United States and GATT Negotiations

M.N. Gifford
Trade Negotiations Office

I welcome the opportunity to talk about Canadian agriculture and trade. The relevance of examining and analyzing the implications of the international environment when discussing the future of Canadian hog marketing is nowhere made clearer than in the excellent background documentation prepared for this workshop by J.C. Gilson and R. Saint-Louis on *Policy Issues and Alternatives Facing the Canadian Hog Industry*. To my mind, one paragraph on page 18 says it all:

> The fact that nearly 30% of Canada's pork production has been sold in the export market during the last two or three years indicates the critical importance of the international market to Canadian hog producers. At the same time, the "internationalization" of the Canadian hog/pork industry has exposed Canadian hog producers to the economic and political factors associated with the exporting business. Fluctuating exchange rates, import controls, countervailing duties and export subsidies are now part of the Canadian hog producers' decision-making framework.

I would like to provide some additional grist for the mill by briefly sketching out the state of the two separate but related trade negotiations that will effectively determine the international environment for Canadian agriculture for the balance of this century and well into the next. I am, of course, referring to the so-called Uruguay Round of negotiations under the General Agreement on Tariffs and Trade (GATT) and the negotiations with the United States on a comprehensive bilateral trade agreement.

Starting with the general, I would like to first say a few words about the scope and timing of the new GATT round of negotiations.

As you are aware, ministers from over 90 countries agreed last September in Punta del Este, Uruguay, to launch the eighth round of multilateral trade negotiations to be held under the auspices of GATT. I do not believe I am overstating the case when I say that the Uruguay Round will be judged largely on what it achieves with respect to agriculture.

For the past 40 years, GATT negotiations have had little success in dealing with agriculture. The reasons for this are both complex and simple. The complexity arises from the intercommodity linkages, the causal relationships between trade measures and domestic agricultural policies and the tendency of many governments to regard the agricultural sector as special. The simple reason is that for 40 years there has been insufficient political will. In the past, governments have in effect thrown up their hands in despair and said agriculture was too difficult to negotiate. We are paying for this neglect today.

The perception that when it came to agriculture most developed countries lived up to the spirit of the GATT only when it suited them and the tendency of many governments to obtain waivers to enable them to maintain measures that otherwise would be inconsistent with their GATT obligations have contributed to a situation in which agricultural policy makers did not believe they were accountable for the international consequences of their domestic policy actions. The end result is the current agricultural trade crisis in which virtually every major agricultural commodity is in structural surplus and much agricultural trade takes place on the basis of competition between treasuries. Let there be no mistake. While it is true that some of the pressure of increased supplies comes from rapid productivity gains in agriculture, much of the supply pressure comes from output that has been stimulated by excessively high price supports.

Artificially depressed international prices, subsidized export competition and an ever-growing proliferation of nontariff import barriers are all symptoms of the malaise gripping agricultural trade. How do we deal with the underlying causes? No one who has studied the political economy of agriculture underestimates the difficulties of persuading governments that it is possible to reduce the trade-distorting aspects of current farm policies while continuing to respond to the economic, social and political imperatives of their rural sectors.

There are a few faint glimmers of hope, however. There appears to be an increasing recognition by governments in all countries of the link between domestic farm policies and trade measures. There is an increasing realization that domestic farm policies cannot be developed in a vacuum and that they must take into account market developments and trade impacts. Increasingly, there is an awareness that the adjustments associated with single-commodity, unilateral changes are significantly reduced in a multi-commodity, multi-country context. In short, there are some signs that after 40 years governments may be prepared to consider the first tentative steps in reforming the agricultural trading system.

Let me hasten to add there is no question of domestic farm policies being modified overnight, of import barriers disappearing tomorrow and of export subsidies being eliminated the day after. All I am suggesting is that this time around there are some grounds to believe that agriculture will not be shunted to one side of the GATT negotiations. Record high farm support costs at a time of budgetary restraint for all governments and a proliferation of agricultural trade disputes that constantly threaten to poison bilateral relations and to spill over into nonagricultural trade are just two of the reasons why it is in the collective interest of the developed countries to try to extricate themselves from the trade mess they have created.

In concrete terms, the objectives of the Uruguay Round are to liberalize trade and to bring agriculture under more effective GATT rules. This will be accomplished by addressing three major elements:

- improving and securing access to markets, for example, through a reduction in tariff and nontariff import measures;
- improving international disciplines on all subsidies affecting agricultural trade; and
- improving international disciplines to prevent the use of technical regulations as disguised barriers to trade.

As for timing, it is envisaged that delegations will examine the problems and their underlying causes and will table negotiating proposals in 1987. In 1988, the hard bargaining will begin. When the agricultural negotiations will end is unclear at this juncture. Canada, the United States and a number of other traditional agricultural exporting countries are pressing for the negotiations to be completed as early as possible, say, within two or three years. Other countries, however, are suggesting that it is impossible to conclude on agriculture in advance of the rest of the negotiations, which are slated to finish in four years. Suffice to say there can be an early result on agriculture only if there is the political will. Moreover, it must be noted that as a practical matter the pace and scope of the agricultural negotiations will depend in large part on the United States and the European Economic Community. That being said, all countries will have to contribute if there is to be a significant result. There can be no free rides.

Turning now to the Canada-U.S. trade negotiations, let me first recall what they are all about. The Prime Minister and the President, in setting these negotiations in train, emphasized that they should be as comprehensive as possible and should aim to achieve the "broadest possible package of mutually beneficial trade barrier reductions." Both countries stressed that any bilateral trade agreement would have to be consistent with our GATT obligations. In GATT jargon, Canada and the U.S. are negotiating what is known as a free trade area. Examples of existing free trade areas include Australia and New Zealand and the non-EEC members of western Europe, including the Nordic countries, Austria and Switzerland, which together form the European Free Trade Area (EFTA).

The major characteristic of a free trade area is that the contracting parties reduce or eliminate trade barriers between themselves but maintain their respective import regimes against third countries.

The Canada-U.S. negotiations are proceeding on a much faster track than the GATT negotiations. The U.S. law authorizing the U.S. administration to engage in these negotiations expires in January 1988. This means that as a practical matter the two chief negotiators will have to decide by early October 1987 whether they can initial a draft agreement and recommend its acceptance to their respective governments. In the case of the U.S., Congress will have 90 days to examine the draft agreement to determine whether it will accept or

reject it in whole. This is what is known as the fast track. Congress cannot pick and choose which elements of the draft agreement it likes; it must vote on the draft agreement as a whole.

Like any other major trade negotiation, any Canada-U.S. trade agreement will involve a phase-in period. It is expected that the target date for the full implementation of the agreement would be on or around the year 2000.

How does agriculture fit into these negotiations? It will come as no surprise that the three elements of the Canada-U.S. agricultural negotiations are the same as for the GATT negotiations:

- improving and securing access to markets;
- improving disciplines on subsidies affecting trade; and
- improving disciplines on technical regulations to prevent their use as disguised barriers to trade.

At this juncture, let me just recall that in Canada-U.S. agricultural trade, the GATT has worked reasonably well, at least in terms of tariff reductions. As a result of past GATT negotiations, about 50% of Canada-U.S. agri-food trade is already duty free and the average tariff on the dutiable trade is about 6%. In addition, many of the remaining tariffs are matched. However, no progress was made in past negotiations in reducing nontariff barriers.

As I suggested in my comments on the GATT negotiations, most nontariff border barriers are directly linked to domestic agricultural policies. For example, both Canada and the U.S. have import quotas on dairy products. The U.S. has import quotas on sugar and certain sugar-containing products. Canada has import quotas on poultry and eggs. Both countries intervene in their respective farm sectors to support farm incomes. Although the extent of assistance varies between commodities, it can be argued that the level of aggregate assistance is roughly comparable. The negotiating difficulties arise from the fact that, while the U.S. may subsidize more when it comes to grains, it does not directly subsidize its cattle and hog sectors. In the U.S., virtually all of the price and income support is provided by Washington, there being little or no state involvement. In Canada, the situation is different; the provinces are involved to a significant degree in price and income support programs.

I believe the foregoing examples are sufficient to make the point that the agricultural negotiations will not be easy. I am not in a position to speculate on the outcome of the negotiations at this time. However, I can indicate Canada's objectives in these negotiations.

Canada's objectives are simply to negotiate the largest possible package of mutually beneficial results. In striving to accomplish this goal, the federal government will have the benefit of close and continuing consultations with the provinces and the agriculture, food and beverage sectoral advisory group on trade. It goes without saying that at the end of the day there will be no deal unless the government is convinced that the deal is good for Canada.

I conclude by making a few observations as to how the bilateral and multilateral negotiations interact from an agricultural perspective. The U.S. is Canada's largest, fastest-growing and most diversified agricultural export market and accounts for 25% to 30% of total exports. Secure and predictable access to this market of 240 million affluent consumers is essential if Canadian agriculture is to grow. The bilateral negotiations offer the prospect of going further on certain trade issues than would be possible in a multilateral negotiation. Here I am specifically thinking of the possibility that the U.S. may modify its system of trade remedy legislation and move away from a unilateral system of dispute settlement to a bilateral system.

This being said, there are limitations to what can be done in the bilateral negotiations. For both countries, most of our agricultural exports go offshore and, hence, we must view the world in a global as well as in a bilateral context. As I indicated above, world agricultural trade is in a mess and both the U.S. and Canada have a major stake in improving the situation. Thus, it may be that certain agricultural issues may be resolvable only in a multilateral context. Here I am thinking particularly of direct export subsidies to third markets.

However, as I said at the outset, the federal government's objectives for both the bilateral and multilateral trade negotiations are the same: to improve and secure access to markets and to negotiate more effective international rules. Ultimately, what we want is a more liberal, a fairer and a more predictable trading environment so that Canadian producers can plan and invest with greater confidence. The status quo is not a viable option, either bilaterally or multilaterally.

8

Export Strategies for Canadian Hogs and Pork

Yvan Jacques
Assistant Deputy Minister, International Programs Branch
Agriculture Canada

The Canadian hog industry is a great industry. Next to wheat, hogs and pork have become what I call internationalized commodities, in the sense that these commodities now are subject to international market forces, including foreign agricultural policies, currency adjustments and a variety of other extraneous factors.

I am reminded of the old cliché that historians tell us about the past, economists predict the future, but the present nobody understands. The very purpose of this National Workshop on Hog Marketing Alternatives is to understand the present in order to prepare for the future. Before us, we have a study prepared by J.C. Gilson and R. Saint-Louis on *Policy Issues and Alternatives Facing the Canadian Hog Industry*, which outlines specific market organization alternatives for the Canadian hog sector. As specified in the study, the policy options are:

- maintaining the status quo;
- a full tripartite stabilization program;
- no intervention by governments; and
- supply management.

It is not my role to advise the industry what marketing option it should choose for the medium-term future; this is for the industry and its participants alone to choose. The challenge is theirs.

My approach to the matter at hand is from an international marketing perspective. As I mentioned previously in my remarks, hogs have become an internationalized commodity. Canadian pig producers in 1985 received $1.8 billion from sales. Export earnings from the sales of live hogs and pork have more than doubled from $320 million in 1980 to $662 million in 1985.

In trade with the United States, Canada was a large net importer of pork between 1975 and 1978. Since then, Canada has become an increasingly larger net exporter of pork to the U.S. market. Since 1983, there has been an increasing shift in the proportion of Canada's total exports to the U.S. market primarily as the result of the reentry of Denmark into Japan's pork market in late 1983 after Danish suppliers had eradicated foot-and-mouth disease. Denmark's share of Japan's pork imports increased from 13% in 1982 and 1983 to 40% in 1984 and 1985. In comparison, Canada's share of Japan's total pork imports decreased from 30% during 1982-83 to 15% in 1984 and dropped again in early 1985 to about 12%. The drop in Canada's pork exports to Japan underlies in part the sharp increase in exports to the U.S.

Although increased pork exports to the U.S. have appeared successful, there have been some disquieting trends for Canada, in addition to reduced market share in Japan in 1982 to early 1985.

Global pork production in 1967 totaled 22.6 million tonnes. In 1986, it registered at 53.6 million tonnes. Most of these results have occurred as a result of production increases in the People's Republic of China, the European Economic Community, eastern Europe, and the Soviet Union. China's pork output increased from 7 million tonnes during 1975 to at least 17 million tonnes in 1986.

China's pork exports increased from an average of 94 000 tonnes during 1975 to 292 000 tonnes in 1986. Other major increases in pork exports during this period were from Canada, eastern Europe and Taiwan. In recent years Taiwan has been progressively sqeezing other exporters out of the Japanese market. In the years ahead, China could do the same.

Another very interesting aspect about pork is the sharp drop in global pork trade between 1974 and 1975. This reflects the change from a six-country European Economic Community to a

nine-country organization. As the EEC has expanded from six to twelve members, it has captured more and more of the global pork trade. In 1986, total global pork exports were placed at 3.7 million tonnes. After intra-EEC trade is eliminated, the total drops to 1.8 million tonnes. Thus more than half of the international trade in pork in 1986 took place within the EEC.

What do the aforementioned factors conclude? To put them in the proper perspective:

- the majority of Canada's pork exports go to the U.S.;
- Canada's share of the Japanese pork market decreased from 30% during 1982-83 to 12% in early 1985 and rebounded slightly in recent months;
- China and Taiwan are the new kids on the block and continue to threaten our total share of the Japanese market; and
- the EEC market is locked up because of the substantial intra-EEC pork trade.

Coupled with the aforementioned factors, it appears the largest global importer of pork, namely the U.S. (our biggest customer), is poised to transform a feedgrain surplus into a red meat surplus. If this occurs, along with the continued threat of U.S. protectionism in the newly transformed U.S. Congress, the Canadian pork industry may be in for a very rough ride in the short to medium term.

The question becomes: If all of these factors have the distinct potential to jell into reality, what should we as producers, packers, provincial governments, and the federal government be doing in the interim in order to remain profitable, competitive, stable and growth oriented?

My reply is summed up in three words: export market diversification.

But the question further becomes: How do we approach this concept and by what means?

In April, June, October and December 1986, I chaired consultations between the meat industry and government, with representatives of the Canadian Pork Council, the Canadian Meat Council and the Canadian Cattlemen's Association in cooperation with the Department External Affairs and the Department of Regional Industrial Expansion (DRIE). I feel these discussions were very productive and they identified a variety of impediments to the meat trade's continued export success in markets other than the U.S.

What we offered the meat industry during the course of these discussions was an opportunity to work in concert with the federal government in order to formulate and implement a short, concise, action-oriented export enhancement plan for red meats in the Pacific Rim and other region as of the world, especially the Pacific Rim. This proposal was presented within the framework of having a concise group of meat industry and government representatives form a working group in order to identify action-oriented activities that could be readily priorized and implemented. These activities would consist of technical and export-oriented market development activities in targeted export market places such as the Pacific Rim. I also made a commitment to the meat industry to earmark funding only as it would apply to activities the industry would view as a priority and from which there would be some degree of certainty of a commercial impact.

I have gone even further in terms of establishing an Agriculture Canada interbranch red meat export working group that will be in a position to work immediately with the industry to create an export enhancement plan. I know that External Affairs and DRIE would continue also to be part of this working group.

There is only one problem within the realm of these ideas and proposals; we have not received a concrete response from the meat industry to push the concept into reality. In our role within the federal government network, we can serve and respond to the industry's needs only if the thrust to exercise these ideas comes from the industry. So the ball is firmly in industry's court.

The proceedings of this workshop on hog marketing alternatives are an exercise in one of four steps, and I congratulate the industry in its proactive stance along these lines.

The first step has already been completed; that is, the commissioning and completion of the study by J.C. Gilson and R. Saint-Louis. The second step is the deliberations taking place in the workshop in the form of assessment of this study. Although there may be some conclusions arising from the two-day seminar, it is unlikely that all of the answers will be decided for the third step, which I feel is the most important one.

This third step involves the formulation of a comprehensive marketing development plan that takes into account and links both the domestic and international marketing of hog/pork products. What are the analytical prerequisites for developing such a comprehensive plan? Effective market planning is based on two important analytical ingredients.

First, market opportunities have to be analyzed and the organizational capability to take advantage of the opportunities has to be assessed. Within this first ingredient, five basic analytical building blocks are required for planning to be successful:

- Customers must be analyzed to determine how the market can be segmented and what the requirements of each segment are.
- Competitors must be identified and their individual strategies understood.
- Environmental trends, including social economic, political and technological trends, have to be assessed.
- Market characteristics in terms of the evolution of supply and demand and their interaction must be understood.
- Internal characteristics must be audited to establish how organizational strengths and weaknesses relate to market requirements.

The second ingredient involves cost analysis. The behavior of costs have to be understood. Are we competitive? Can we be more competitive? Two separate phenomena must be considered. These are:

- scale effects in terms of the impact of absolute size of the operation costs; and
- experience effects in terms of the impact of cumulative historical volume (experience) on costs.

Conducting such analyses is deceptively simple in theory, yet excrutiatingly difficult in practice. It requires data, imagination, experience and good conceptual skills supported by extensive top-quality work.

The fourth and final step, of course, is making the decision on the route the industry wishes to pursue vis-à-vis its future.

In conclusion, I wish to reiterate the importance of the third step and the need for a comprehensive market development plan that has both an export marketing and a domestic marketing component that are linked and interrelating with one another. The players include the federal government (Agriculture Canada, External Affairs and DRIE), provincial governments, producers and packers, who are all participating in this National Workshop. In order to implement such a plan, input and assistance is required by all of these players.

9

Structural Changes in Production, Marketing, Processing and Pricing Practices

Robert Saint-Louis
Université Laval

The geographic profile of Canadian hog production has undergone a series of major changes in the last 30 years (Table 9.1). The production capacity of the Canadian pig production sector has increased significantly in the last 20 years. Most of the growth came in the last half of the 1970s.

One of the driving forces behind the growth in Canadian production capacity seems to have been the increase in size of hog farms (Table 9.2).

- Farms increased in size fairly suddenly. The most significant growth took place between 1971 and 1981, but especially between 1976 and 1981. The average size of hog farms doubled in five years.
- Farms reporting 1000 hogs or more accounted for only 10% of the Canadian swine herd in 1971. By 1976, they already represented 25% of the herd. In 1981, they accounted for 40.4%.
- Possibly the most noteworthy point is the fact that in the case of farms reporting 500 pigs or more, each farm size category increased its share of the Canadian herd between 1976 and 1981. This phenomenon immediately raises the question of economies of scale in the modern Canadian hog industry.
- Farms reporting between 250 and 1000 hogs (now called the "midsize group" by North American specialists) showed remarkable stability.

The growth in size of Canadian hog farms is a regional phenomenon. Recently, this growth has been strongest in Quebec and weakest in Saskatchewan.

The question of the possible existence of economies of scale in the modern Canadian hog industry is little documented in Canada. We therefore have to rely mainly on recent U.S. data.

There is a seasonal nature to Canadian hog production. Farrowings in the Canadian hog industry are still related to seasonal climatic factors. This causes the supply of fattened hogs to be seasonal (Figure 9.1). The bulk of the supply arrives on the market in the first quarter of the year. The supply is smallest in the third quarter. All things considered in recent years, the seasonality of production has been less marked in Canada than in the United States (Figure 9.2).

The cyclical nature of production since 1961 has been fairly regular, normally lasting four years in North America (Table 9.3). However, outside events have disrupted the cycle on three occasions. In 1969, there was a sharp increase in North American grain production. In 1974, there was a major drought in the U.S. Corn Belt. Since 1977, monetary phenomena, protectionist measures, dynamic production and policies in Canada have disrupted the production cycle.

There is good reason to believe that Canadian production is becoming less elastic in responding to downward variations in slaughter hog prices. When the price drops, the production troughs are not as low relative to the preceding peaks. The pattern is intriguing and a sound explanation has yet to be found. The increase in farm size may have something to do with it. How will the seasonal and cyclical nature of production be affected between now and the end of the century? This question will have to be examined closely, especially if we in Canada move toward a system geared to American price trends.

In the United States, the Corn Belt stretching from the Lake states across the northern plains accounted for 75% of pig production in 1950. The region continued to maintain roughly the same share until 1980. This suggests that greater regional production stability exists in the United States than in Canada.

Gross receipts of hog producers in the United States are equivalent to only about 7% of total gross farm receipts. In Canada, at the beginning of 1980, the comparative figure was 10.5%.

Recently U.S. farms have increased considerably in size (Table 9.4). The trend seems to have come somewhat later than in Canada, and U.S. farms are continuing to grow in size.

Economies of scale in American hog production are well documented. Recent studies show that economies of scale may be substantial and continue to be realized by farms having up to 10 000 head (Table 9.5). Increase in size in itself is not a guarantee of success, however. Nevertheless, supersize hog farms could greatly improve their relative position in the industry while resisting vertical integration by suppliers.

The seasonal nature of U.S. hog production still manifests itself in the concentration of farrowings in the spring. Production may be even more seasonal than in Canada in recent years.

The cyclical nature of U.S. production has been modified somewhat in recent years. Relatively speaking, American production seems to have fallen more sharply than Canadian production in the most recent decline. Will this be a recurring phenomenon? The Canadian industry should monitor the situation closely.

In the processing sector, slaughtering and packing plants increased in number dramatically between 1960 and 1974. The number of plants then showed a slight decline before rising again.

Canada's hog production sector has a remarkable multiplier effect both upstream (mainly to feedmills) and downstream (mainly to slaughtering and packing plants). Meat industries provided 33 000 jobs and in the last 10 years. Meanwhile, total of $1.3 billion has been spent on investments and repairs in the processing sector.

At the beginning of the 1980s, the concentration of ownership of firms in the processing industry on a national basis was not considered a source of concern, compared with that for other Canadian industrial sectors. Now, however, there are reasons to believe that at the regional or provincial levels, the concentration of ownership of firms is posing increasingly serious problems, but not to the same degree everywhere.

Major structural adjustments took place in Canada's slaughtering and meat packing industry in the 1970s, but it seems that the most important changes are to come. These will likely come after 1970, since Canada lags behind the United States in this area.

The transfer of meat cutting and processing activities from the trade and restaurant kitchens to the slaughtering and meat packing sector has contributed significantly to this trend since 1970. The choice of size and location of the new facilities in relation to the old facilities will pose a growing challenge for both the federal and provincial governments. Reconciling the objectives of minimum government intervention and the pursuit of equity at the regional level could therefore prove increasingly difficult.

Technological changes, such as the development of large-scale facilities for trimming and cutting, speedier packing and improved refrigeration, make it increasingly difficult to obtain a correct measurement of the utilization of plant capacity in the sector. In all of their operations including transportation and handling, plants try to make maximum use of the space available. Capacity utilization for Canadian slaughtering and packing plants was estimated at 85% in 1984, but this figure should be used with some reservation.

The fact that Canadian firms were less competitive than American firms was explained at the beginning of the 1980s by the higher weekly pay in the Canadian industry. One should be careful, though, not to extrapolate too much from these measures of labor cost differentials.

The period of rollbacks under the umbrella of the "Bankruptcy under Chapter XIII Regulations" in the United States seems to have come to an end, at least in the meat industry.

Slaughtering and packing plant competitiveness and the acceptable level of division of market powers between hog producers and the remainder of the industry, including slaughtering and packing plants, therefore remain critical to the future of the Canadian hog industry.

As for marketing, before the provincial hog marketing boards were developed, the marketing system was based on terminal markets. There was no uniformity in provincial plans. Some provinces chose to establish a more competitive system, while other provinces chose direct negotiation with the slaughtering and packing plants.

At the same time, various steps were taken by producers themselves to promote competition in the remainder of the system.

Vertical integration of hog production by upstream industries has developed primarily in Quebec. The phenomenon is recent and takes various contractual forms, but it dominates hog production in Quebec at the present time.

Although the marketing methods used across Canada are not uniform, Ontario's electronic auction system acts as a delicate pivot around which very different provincial formula pricing systems turn.

In the United States since the Second World War, most hogs have been sold directly from producers to slaughtering plants. In 1980, these direct sales accounted for an estimated 76.6% of total volume.

Turning now to domestic consumption and exportable surpluses, Canadians in 1960 consumed 52 pounds of pork per capita. In 1980, they consumed 69 pounds. Consumption rose slowly but steadily in the interval. Then consumption fell sharply from 1980 to 1983. Despite even fiercer competition from other meats, pork consumption did not decline further after that (Table 9.6).

This could suggest that a better income outlook may be in store for the industry, provided that marketing and promotion are substantially improved. This represents a real challenge for the industry and governments concerned.

Since 1970, the Canadian hog industry has gradually acquired a more international dimension every year as a result of exports to the United States and Japan.

TABLE 9.1 REGIONAL DISTRIBUTION OF HOG PRODUCTION, CANADA, 1961-85

	1961	1971	1976	1981	1985
			(thousand head)		
Atlantic	150.4	251.6	205.8	364.8	424.5
Newfoundland	1.5	14.6	15.7	19.1	17.5
Prince Edward Island	54.9	100.9	78.1	116.8	128.0
Nova Scotia	46.9	79.8	72.7	139.3	155.0
New Brunswick	47.1	56.3	39.3	89.6	124.0
Central	2 598.4	3 745.3	3 517.6	6 606.6	6 720.0
Quebec	912.1	1 383.6	1 613.1	3 440.8	3 335.0
Ontario	1 686.3	2 361.7	1 904.5	3 165.8	3 385.0
East	2 748.8	3 996.9	3 723.4	6 971.4	7 144.5
Prairies	2 542.3	4 031.4	1 991.7	2 648.7	3 370.0
Manitoba	431.5	1 070.6	625.0	875.0	1 200.0
Saskatchewan	640.8	1 145.3	490.4	574.3	705.0
Alberta	1 470.0	1 815.5	876.3	1 199.4	1 465.0
British Columbia	41.6	78.6	53.0	254.9	270.0
West	2 583.9	4 110.0	2 044.7	2 903.6	3 640.0
CANADA	5 332.7	8 106.9	5 768.1	9 875.0	10 784.5

Source: Statistics Canada and Agriculture Canada.

TABLE 9.2 DISTRIBUTION OF HOG INVENTORY AND FARMS REPORTING, BY SIZE OF HERD, CANADA, 1971, 1976 AND 1981

	Hog inventory			Farms reporting		
	1971	1976	1981	1971	1976	1981
			(%)			
1 – 19 head	4.8	3.4	1.6	44.7	52.0	43.1
20 – 100 head	28.7	15.5	7.4	39.3	29.4	26.7
101 – 250 head	26.2	18.0	11.7	11.0	10.1	14.8
251 – 500 head	18.5	20.0	16.7	3.5	5.0	8.2
501 – 1000 head	12.2	18.1	22.2	1.2	2.3	5.6
1001 – 2500 head	7.0	15.6	25.4	0.3	1.0	3.0
2501 and more	2.6	9.4	15.0	–	0.2	0.6
Total	100.0	100.0	100.0	100.0	100.00	100.0

Source: Census of Canada, Agriculture, 1971 to 1981, Statistics Canada.

TABLE 9.3 HOG PRODUCTION CYCLES, CANADA AND THE UNITED STATES, 1961-86

	Commercial hog slaughter						Hog prices[b]		
	U.S.		Canada[a]		Total			U.S.	Canada
Year	(million head)	(% change)	(million head)	(% change)	(million head	(% change)		($/cwt)	
1961	77.3	–2	7.6	–3	84.9	–2	Low	17.16	27.18
1962	79.3	3	7.7	1	87.0	2		16.82	28.30
1963	83.3	5	7.6	–1	91.4	5	High	15.38	27.30
1964	83.0	n.c.	8.3	9	91.3	n.c.		15.31	26.23
1965	73.8	–11	7.9	–5	81.7	–11	Low	21.30	31.77
1966	74.0	n.c.	7.9	n.c.	81.9	n.c.		23.49	35.14
1967	82.1	11	9.3	10	91.4	12	High	19.37	29.53
1968	85.2	4	9.2	–1	94.4	3		19.19	29.59
1969	83.8	–2	8.7	–5	92.5	–2	Low	23.71	34.69
1970	85.8	2	10.7	23	96.7	5	High	21.95	30.14
1971	94.4	10	11.4	7	105.8	9		18.45	23.67
1972	84.7	–10	11.1	–3	95.7	–10	Low	26.67	34.90
1973	76.8	–9	10.7	–4	87.4	–9		40.27	52.36
1974	81.8	7	10.9	2	92.6	6	High	35.12	47.86
1975	68.7	–16	9.2	–16	77.6	–16	Low	48.32	65.40
1976	73.7	7	9.1	–1	82.8	6		43.11	62.40
1977	77.3	5	9.1	n.c.	86.4	4	High	41.07	59.85
1978	77.3	n.c.	10.1	11	87.4	1		48.49	69.99
1979	89.1	15	12.0	19	101.1	16	High	42.06	65.42
1980	96.1	8	14.1	18	110.2	9		39.48	60.59
1981	91.6	–5	13.8	–2	105.4	–4	Low	44.05	71.34
1982	91.6	–10	13.7	–1	95.9	–9		55.07	84.95
1983	87.6	7	14.1	+3	101.7	6	High	47.71	72.81
1984	85.2	–3	15.2	8	100.4	–1		48.86	74.26
1985	84.5	–1	15.6	3	100.1	n.c.		44.71	70.75
1986[p]	79.4	–6	14.8	–5	94.2	–6		51.50	83.30

[a] inspected plus uninspected plus live exports to the U.S.
[b] Canada: weighted national average all market hogs, dressed, in Canadian dollars; United States: barrows and gilts, live, in U.S. dollars
[p] preliminary

TABLE 9.4 DISTRIBUTION OF HOG PRODUCTION, UNITED STATES, 1978 AND 1982

		Annual sales (head)							
	Total	Under 100	100 – 199	200 – 499	500 – 999	1 000 – 1 999	2 000 – 4 999	5 000 and more	Total
	(number)	(%)							
Hogs and pigs sold:									
North Central[a]									
1978	71 041 419	6.7	10.0	26.5	24.2	17.4	9.7	5.5	100
1982	75 648 508	4.1	6.3	19.4	23.8	22.5	14.5	9.4	100
Southeast[b]									
1978	12 360 978	18.6	12.4	18.1	13.1	12.5	12.9	12.4	100
1982	11 166 656	10.0	7.1	13.0	13.0	15.9	19.0	22.0	100
Farms selling hogs and pigs									
North Central[a]									
1978	272 475	44.8	18.7	22.5	9.4	3.5	0.9	0.2	100
1982	205 333	38.7	16.7	23.1	12.8	6.3	2.0	0.4	100
Southeast[b]									
1978	102 183	77.2	11.1	7.4	2.4	1.1	0.6	0.2	100
1982	53 321	71.6	11.0	9.1	4.0	2.5	1.4	0.4	100

[a] Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, Ohio, South Dakota and Wisconsin
[b] Alabama, Georgia, Kentucky, North Carolina, South Carolina, Tennessee and Virginia

TABLE 9.5 FARROW-TO-FINISH HOG PRODUCTION COSTS AND RETURNS, UNITED STATES, NORTH CENTRAL REGION, 1980[a]

Item 140	Annual sales (head)						
	300	650	1 600	3 000	10 000	All sizes	
				($/cwt)			
Gross income[b]							
Market hogs	37.63	37.85	37.28	37.35	37.40	37.32	37.50
Cull sows	1.93	2.16	2.08	2.03	1.98	2.05	2.05
Total	39.56	40.01	39.36	39.38	39.38	39.37	39.55
Variable cash costs[c]							
Feed	29.03	28.94	28.67	28.15	27.20	25.92	28.34
Other	6.89	6.37	6.58	6.09	5.75	7.64	6.44
Total	35.92	35.31	35.25	34.24	32.95	33.56	34.78
Fixed cash costs[d]	2.19	1.99	1.69	1.30	.89	.87	1.63
Total cash costs	38.11	37.30	36.94	35.54	33.84	34.43	36.41
Returns over cash costs	1.45	2.71	2.42	3.84	5.54	4.94	3.14
Unpaid labor	8.42	5.66	3.60	3.09	2.97	.96	4.42
Cash costs plus unpaid labor	46.53	42.96	40.54	38.63	36.81	35.39	40.83
Returns over cash costs and unpaid labor	−6.97	−2.95	−1.18	.75	2.57	3.98	1.28
Capital costs:[e]							
Replacement	6.25	6.10	5.10	5.06	4.14	3.70	5.32
Interest	3.55	3.00	2.46	2.18	1.83	1.61	2.59
Total	9.80	9.10	7.58	7.24	5.97	5.31	7.91
Total all costs	56.33	52.06	48.10	45.87	42.78	40.70	48.74
Returns over total costs	−16.77	−12.05	−8.74	−6.49	−3.40	−1.33	−9.19

[a] Production and sales are seasonal in the two smallest enterprises; all others operate year round. Representative enterprises are weighted by their share of total hog production to create the outcomes for all sizes of enterprises.

[b] Boars are included in the capital account as a depreciable asset.

[c] Feed costs include the market value of grains, the purchase cost of protein supplements and feed additives, and the cash costs of producing hog pastures. Other costs include veterinary and medicine, custom services, fuels and electricity, repairs, bedding, hired labor, marketing charges, and a computed interest on operating capital, less any credit for manure used in crop production.

[d] The hog enterprise share of taxes, insurance, and general farm ovehead costs.

[e] Capital replacement is the anual share of the replacement cost of all depreciable assets, including boars, at current prices. The value of land is not included. Interest is computed on the replacement cost of all capital assets, including land, at the average rae of return to capital assets used in agriculture for the previous 20 years (which ranged from 4.2% to 4.4% during 1980-83.

TABLE 9.6 PER CAPITA CONSUMPTION OF MEAT, BEEF, PORK AND POULTRY PRODUCTS, CANADA AND THE UNITED STATES, 1965 AND 1970 TO 1985

Year	Beef and veal	Pork	Poultry
		(pounds)	
Canada			
1965	83.6	47.9	36.1
1970	84.4	58.8	44.7
1971	88.6	65.0	43.0
1972	94.3	63.1	43.9
1973	92.7	59.3	45.6
1974	96.1	62.2	45.0
1975	106.4	53.2	41.0
1976	113.4	55.4	43.9
1977	107.8	55.4	45.6
1978	100.9	57.2	47.0
1979	88.0	64.1	50.3
1980	87.2	69.1	50.5
1981	90.2	66.4	49.8
1982	93.0	61.5	50.0
1983	91.9	63.3	50.5
1984	88.4	61.5	52.3
1985	89.5	62.8	55.3
United States			
1965	104.7	67.2	41.1
1970	116.4	72.6	48.8
1971	115.4	78.7	49.0
1972	117.7	70.9	51.1
1973	110.6	63.4	49.3
1974	118.0	68.5	49.9
1975	122.9	55.4	49.0
1976	131.5	58.6	52.2
1977	127.8	60.5	53.6
1978	120.8	60.3	56.3
1979	107.5	68.8	60.9
1980	105.2	73.5	61.0
1981	106.1	69.9	62.9
1982	106.3	62.7	64.3
1983	108.4	66.2	65.5
1984	108.4	65.6	67.5
1985	106.9	66.0	70.1

Source: Agriculture Canada, Statistics Canada cat. no. 23-203; USDA.

FIGURE 9.1 SEASONALITY IN HOG MARKETING, CANADA, 1970-85

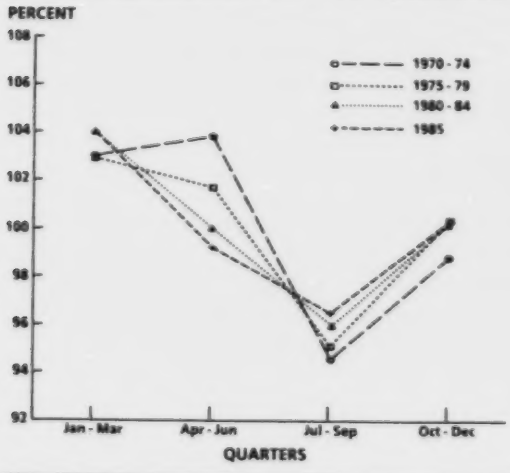
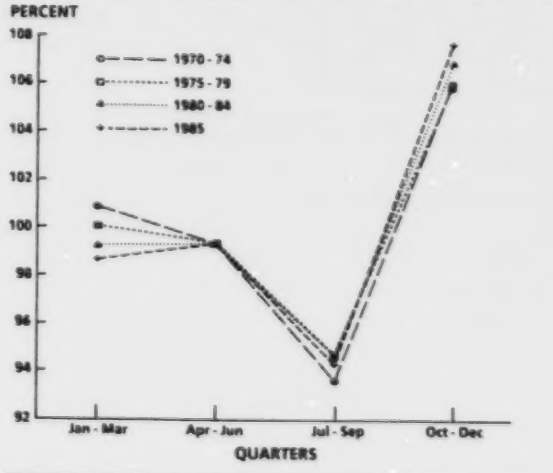


FIGURE 9.2 SEASONALITY IN HOG MARKETING, UNITED STATES, 1970-85



10

Hog Marketing Options and Impacts[1]

H. Bruce Huff
Director, Market Outlook and Analysis Division
Agriculture Canada

Introduction

Hog markets in Canada have characteristically been unstable. Hog producers have faced numerous periods of low prices and high costs during the past two decades, reflecting the industry's close ties to international pork and feedgrain markets and the easy entry into the industry. Nevertheless, the Canadian pork industry's growth in marketings of 7.5% annually over the past 10 years has been remarkable.

At the same time, there has been a slow growth in domestic demand for pork during the 1980s, as consumer incomes have been depressed. As a result, much of the expansion in hog production since 1978 has been exported, making Canada vulnerable to price fluctuations and to foreign governments' policies in international markets. To offset the instability facing Canadian hog producers, a number of new stabilization programs have been introduced in several provinces and at the federal level during the past decade.

The greatly expanded exports to the U.S., at a time when the U.S. industry faced tough economic conditions, increased political pressure for some measure of protection from imports. In 1985, the U.S. producers were successful in obtaining countervailing duties to compensate for direct government support to Canadian producers.

Currently the industry in Canada is confronted with a variety of marketing problems, including the difficulties in establishing a tripartite stabilization program to harmonize federal and provincial programs, the possibility of U.S. countervail action being extended to pork, the expectations of a prolonged period of declining hog prices, and ongoing bilateral and multilateral trade negotiations. As a result, industry leaders have felt it was timely to examine alternative policies related to marketing of hogs in Canada and have requested that a study of these alternatives be undertaken.

This paper reports on the analysis of four different marketing options selected for study by the Canadian Pork Council and Agriculture Canada. These are:

- the status quo, or no change in existing programs;
- no intervention, or reduced government support;
- a national tripartite program for price stabilization in the hog/pork sector; and
- supply management in the hog/pork industry.

The objective of this analysis is to permit industry participants to better evaluate the economic benefits of these options before proposing any changes in hog marketing policies in Canada.

Study approach

The central feature of the study is to examine the impact on hog markets under different marketing options. To conduct the impact analysis, an econometric model of the pork sector developed by Agriculture Canada is used. This Food and Agriculture Regional Model (FARM) provides the capability to simulate over time the impact of various marketing policies. The model permits an evaluation of the performance of economic variables such as regional supply and utilization and prices on a quarterly basis, and it includes links with other commodities, sectors and countries. The four policy options are analyzed over a historical period from 1975 to 1985 and over a forecast period from 1986 to 1991.

The forecasts were developed in the spring of 1986, and they differ slightly from the forecast described earlier in these workshop proceedings by Merritt Cluff, Alan Boswell and Pierre Charlebois (Chapter 6). The difference is that the forecast used in this study suggests a higher price and a quicker turnaround in hog prices and hence requires smaller stabilization programs payments.

To simplify the presentation, only the detailed results for the forecast period from 1986 Q1 to 1991 Q1[2] are presented. For each of the four options, a comparison is made based on the following six criteria:

- production (including regional distribution);
- net trade;
- market prices;
- cash receipts (including stabilization payments);
- net returns (cash receipts less cash costs); and
- variability of producer net returns.

Description of options

Status quo

The status quo is the benchmark against which program changes are assessed. This option assumes that current federal and provincial policies would be maintained, particularly stabilization programs and the current countervail duty on live hog exports to the U.S.[3]. It assumes provincial stabilization programs in British Columbia, Quebec and Atlantic provinces would be maintained. Levies in British Columbia and Quebec would be set to ensure an actuarially sound fund during 1986-91. Existing rules for levies in the Atlantic provinces would be left unchanged. All other provinces would be phased into the national tripartite program during 1986.

Under the current industry structure, North American trade is relatively free (notwithstanding the current U.S. countervail duty on live Canadian hogs) and prices are primarily determined on the basis of U.S. markets. Canadian-U.S. price differences are affected by the direction and volume of trade. Canadian prices were above U.S. equivalents during the 1974-78 period of net imports, but fell increasingly below U.S. prices as export volumes substantially increased during the early 1980s.

No intervention

Canada now exports almost 30% of its hog and pork production, with about 80% of this going to the U.S. A very substantial rise in live hog exports in 1984 raised U.S. producers' concerns about the level of subsidies to Canadian producers. U.S. hog producers requested and were granted countervail duties against live hog imports into the U.S. in 1985. An appeal by the U.S. to extend the countervail to include pork imports from Canada is pending.[4]

Prices of many agricultural commodities in world markets are depressed, largely because of weak international demand and excess supplies generated by the high levels of government assistance. This has prompted governments to seek multilateral reduction in levels of assistance to producers. The initiation of the current round of negotiations of the General Agreement on Tariffs and Trade includes an objective statement to reduce domestic policies that provide assistance to agriculture. Canada is currently holding bilateral discussions with the U.S. on freer trade between the two countries. Given our current level of hog and pork exports to the U.S., it is important to negotiate an agreement on the appropriate support mechanisms for the pork sector. As well, to obtain a multilateral agreement on agricultural trade liberalization, Canada may agree to reduce the extent of certain government support programs.

Thus it is important to look at the implications to the Canadian pork sector of a reduction in direct government assistance as a result of terminating federal and provincial stabilization programs in 1986 Q1. This option also assumes a termination of the U.S. countervail on live hogs but no change in U.S. farm programs.

National tripartite program

Concern about regional inequities and rising government expenditures led to federal-provincial-industry discussions to harmonize stabilization programs among regions and the development of the National Red Meat Stabilization Program, a voluntary, tripartite program. To date, only the provinces of Ontario, Alberta, Saskatchewan and Manitoba participate in the hog plan.

This option examines the impact of the joining of all provinces in the national tripartite program in 1986 Q1 (Quebec in 1986 Q2) and the phasing out of their provincial programs.[5]

Some 90% of the producers are assumed to participate in the plan. The analysis assumes that producers would not respond differently under the different degrees of risk. It simply assumes that producers would have full knowledge of the support level and would respond to the total of market prices and stabilization payments in the

same way as to a similar market price.

Supply management

Another means of dealing with the problems associated with market instability and possible restrictions on exports to the United States is to control net trade in pork and to remove the instability of foreign markets by establishing a supply management program in Canada.

The proposed option assumes that Canadian domestic market prices would be set through a cost-of-production formula and that production would equal domestic disappearance, with 10% of production destined for exports (i.e., production would be 111% of domestic disappearance).[6] It is assumed that exports under this option would all be sold offshore to avoid any concern by the U.S. of dumping. Production quotas would be based on the historical 1981-85 production in each province. It is also assumed that producers would always produce up to their quotas. Prices for domestic sales would be set at $78/cwt for 1986 Q1 and the red meat stabilization cost-of-production model would be used to establish prices for other periods.[7] Export prices would be established at U.S. equivalent levels. Producers would receive a blended domestic and export price.

Results of analysis of options

Status quo

The forecasts for the status quo and all other options are based on the same assumptions regarding macroeconomic conditions, U.S. livestock and grain prices and offshore hog sales. The forecast, developed in the spring of 1986, projects an increase in production for the 1987-88 period, followed by two years of decline during 1989-90. Conversely, prices would decline and then would rise over those two periods. Current forecasts now indicate a longer period of marketing growth and of declining prices. This implies that the forecast assumed in the study would result in lower stabilization payments.

No intervention

In comparison with the status quo option, the no intervention option would lower the effective returns to producers, resulting in production approximately 1% lower over the period (Figure 10.1). The removal of the U.S. countervail on live hogs as well as the lower production are expected to result in a 2% rise in market prices in Canada (Figure 10.2). The lower production would be offset by lower domestic consumption. Nevertheless there would be a decline of 2.5% in exports, with the higher level of hog exports partially offsetting a larger decline in dressed pork exports.

The impact of this no intervention option on hog production would vary by province, depending on the existing level of assistance and on how producers respond to prices. Thus the largest production declines would be in those provinces having the highest existing level of support: 8.4% decline in Saskatchewan, 5.5% decline in the Atlantic provinces, and 2.8% decline in British Columbia (Figure 10.3). A small rise in production is anticipated in Manitoba as a result of the higher Canadian price. The largest decline in exports would likely occur in western Canada, since this is where the largest drop in production would occur.

Without stabilization payments, cash receipts on average would be about 1% lower for the total period, compared with the status quo (Figure 10.4). They would be higher during 1986 and 1987, when no producer stabilization payments would be made and when no levies would be collected from producers. Cash receipts would be substantially lower for 1988 and 1989, when large stabilization payments would be made. Cash receipts would decline most in those provinces having high stabilization payments: British Columbia, Saskatchewan and the Atlantic provinces.

The net returns to producers after accounting for cash costs, however, would be slightly higher at 1% under the no intervention option, compared with the status quo option. Net returns would be much higher in the early part of the forecast period during 1986-87, when producers would benefit from more live hog exports to the U.S. while avoiding levy costs, but there would be no offsetting stabilization payments, as would be made under the status quo option. It should be noted that net returns would be more stable under the status quo option than under the no intervention option.

National tripartite program

In comparison with the status quo, under a national tripartite program, marketings of hogs would be marginally less, being initially unchanged for nine quarters, then slightly higher for three quarters and then lower for the last seven quarters (Figure 10.5). The market price of hogs would be slightly higher at 1% late in the period (Figure 10.6). The largest marketing decline for the last seven quarters would occur in British Columbia at 4.7%, Saskatchewan at 4.2% and the Atlantic

provinces at 5% (Figure 10.7). Cash receipts would be 0.8% lower for the whole period and mainly in last three years of the period from 1988 Q4 to 1991 Q1 (Figure 10.8). Most of this decline would be from reduced stabilization payments; tripartite payouts from 1988 Q4 to 1991 Q1 would be one-third the level under the status quo. Most of the decline could be attributable to lower stabilization payments in British Columbia, Saskatchewan, Quebec and the Atlantic provinces. For Ontario and Manitoba, cash receipts would rise slightly.

The net returns to producers (cash receipts less cash costs) would be an estimated 1.6% lower under the national tripartite plan, compared with the status quo. The largest decline would be in the 1988-89 period, when the largest stabilization payments would be made. Other impacts such as trade and regional production shifts would be very minor.

Supply management

Under supply management, the results presented are for the case in which production is assumed to be 111% of domestic disappearance and in which domestic prices would be set by a cost-of-production formula, with a reference price set in 1986 Q1 of $78/cwt (median option).

In comparison with the status quo, hog production in Canada would decline over the five-year period by 21% because of both lower domestic and lower export sales (Figure 10.9).

Prices under the cost-of-production formula would be generally higher, averaging $6.78/cwt more than under the status quo. Nevertheless, there would be periods when the formula would produce lower prices, such as during the last half of 1986 and the first half of 1987 (Figure 10.10). Because of the historical base period selected, the largest decline in marketings would occur in the Prairie provinces at 27% and the smallest decline would occur in Quebec at 16% (Figure 10.11).

Cash receipts would be 13% lower in Canada as a whole (Figure 10.12), 17% lower in the west, and 12% lower in the east. The net returns to producers (cash receipts less cash costs) under the median supply management option would also be lower by about 2%. The largest declines would occur during late 1986 and 1987 when prices would be lower under the formula than under the status quo option. The net returns would be substantially more stable, however, than under the status quo. The net returns as well would be substantially higher by about 30% under the high-export option or under the high-price option.

Summary

Differences in the forecast economic performance at the national level among the status quo, tripartite and no intervention options are relatively small. The option that would give the highest hog marketings, net exports and cash receipts in the forecast period from 1986 to 1991 would be the status quo (Table 10.1). Producer prices, however, would be lowest under this option. The highest net returns would occur under the no intervention option and the most stable net returns would occur under the supply management option.

The small differences among options during 1986-91 is due in part to the start-up period and to the relatively strong pork market forecast for 1986-91. The differences among these options depend on market factors; obviously the better the support program, the higher the payment during low-price periods. The extent and duration of low prices is therefore a major factor in comparing these programs. Regionally, these changes among options vary considerably more than the national average, with the major changes being experienced in those provinces currently having the greatest stabilization assistance: Quebec, Saskatchewan, British Columbia and the Atlantic provinces.

The impact of the supply management option is quite different from that of the other options. Hog marketings would be an expected 21% lower and prices would be $6.78/cwt or $14.90 per hundred kilograms higher. This would result in cash receipts 13% lower and net returns 2% lower than under the status quo. Net returns would be considerably more stable, however, under the supply management options. Even if cost-of-production formula prices used were 10% higher, cash receipts would still be lower than under the status quo. Of those supply management options considered, it is only under the option featuring exports at 25% of domestic production that cash receipts would exceed those under the status quo, and even then this would not happen in all provinces.[8] Net returns would be considerably higher under the high-price and high-export supply management options. Regionally, supply management could have an important impact, since establishing quotas on a historical (1981-85) production pattern would freeze regional distribution of production. Historically, production has varied widely across provinces.

Supply management would compare more favorably during periods of low exports, if producers would fill production quotas. For example, during the historical period of 1975-85 the median supply

management option would have generated cash receipts only 2% less than those under the status quo, compared with 13% less than those under the status quo during the forecast period of 1986-91. Prices, however, would have averaged less than those under the status quo option during the historical period of 1975-85.

Thus comparison among options is influenced by the nature of the hog market. During a period of strong markets, stabilization programs are less important, but the converse is true in weak markets. The 15-year period from 1975 to 1991 included in this analysis provides examples of both types of periods and illustrates a good example of differences among options.

Other considerations

In addition to the comparisons of the evaluation criteria made above, economists have serious concerns about the hidden consumer costs of other supply management programs. This is a question not only of appropriateness of income transfers but also of the inefficiency of the transfer process. Higher food prices are regressive; those with the lowest income spend the highest proportion of it on food and would be most affected. Moreover, studies of supply management in the Canadian poultry sector suggest the cost of transferring $1 to producers requires the equivalent of $2 of income from consumers. Deficiency payments are a more efficient and progressive means of tranferring income among segments of the economy because they come from general taxation. Nevertheless, supply management is appealing to governments that are trying to reduce budget deficits and to ensure a "fair" and stable return to producers.

A second concern related to supply management is the rigidities and costs introduced. Higher prices are often captured in quota values, rewarding initial recipients but not subsequent producers. It also locks in a particular provincial production share of the national total. Historically, regional shares of production have varied substantially in Canada. It would be important to establish a program that would minimize these effects.

Current trade negotiations may also have implications for future hog marketing policies. The U.S. may not accept a two-price system such as proposed for supply management or even a continuation of current stabilization programs, if we continue to export a large volume of hogs and pork. Canada pressed for a strong statement on agriculture subsidies in the opening of the GATT trade negotiations. The GATT round could clearly limit the types of domestic agricultural policies that could be introduced or maintained. Moreover, studies have shown that if multilateral action is taken to reduce subsidies, world market prices would rise and would become more stable.

Notes

1 The analysis in this paper has been provided by Pierre Charlebois and has been reported in *Policy Issues and Alternatives Facing the Canadian Hog Industry*, by J.C. Gilson and R. Saint-Louis.

2 Results for the historical period are found in Ibid.

3 The analysis incorporates the current provincial plans in British Columbia, Quebec and the Atlantic provinces while the Prairie provinces and Ontario are included in the federal tripartite program.

4 Canada is also appealing the original decision on the countervail on live hogs.

5 The phase-in program varies slightly by province and does not require producer payments to ensure that provincial stabilization funds are balanced before the transfer to the national program.

6 Several other options and combinations are also examined, such as no exports and 25% of production exported, as well as higher and lower domestic prices ranging from $85/cwt to $70/cwt in 1986 Q1.

7 Production would be higher in 1988 because net returns would be higher in 1986-88 without stabilization levy payments.

8 In the case in which exports would be assumed to be 25% of domestic production, it is assumed that almost half would go to the U.S. This level of exports would have to be negotiated with the U.S. to avoid the dumping issue, and it may not be feasible to obtain this level of U.S.-Canada trade.

TABLE 10.1 COMPARISON OF HOG MARKETING OPTIONS, 1986-91, AVERAGE QUARTERLY ESTIMATES, 1986-91

	Status quo	National tripartite program	No inter-vention	Supply manage-ment[a]
Hog marketings (thousand head)				
Canada	3714	3704	3675	2943
East	2487	2482	2470	2040
West	1227	1222	1205	903
Pork net exports (million pounds)				
Canada	124.2	123.6	114.2	42.3
East	87.8	87.5	83.6	42.3
West	36.4	36.1	30.6	0
Prices ($/cwt)	72.78	72.96	74.30	79.56
Cash receipts ($ million)				
Canada	483	479	481	418
East	333	330	332	294
West	150	149	149	124
Net returns ($ million)[b]	179.9	177.0	181.3	176.8
Variability of net returns[c]	29	32	40	10

[a]median price and export level
[b]cash receipts less cash costs
[c]standard deviation from the 1986-91 average

FIGURE 10.1 HOG MARKETINGS IN CANADA: STATUS QUO VERSUS NO INTERVENTION

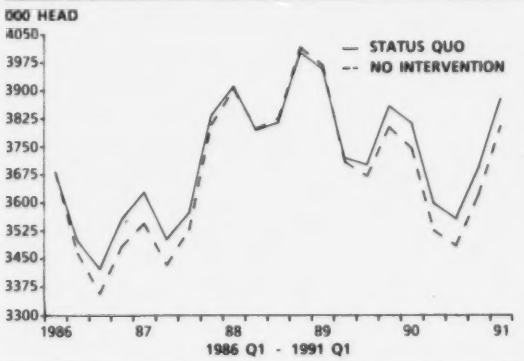


FIGURE 10.2 HOG PRICES IN CANADA: STATUS QUO VERSUS NO INTERVENTION

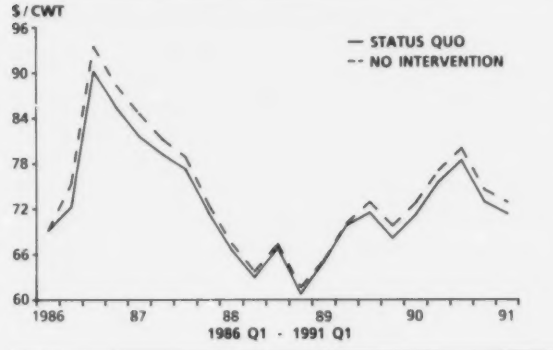


FIGURE 10.3 REGIONAL HOG MARKETINGS: STATUS QUO VERSUS NO INTERVENTION

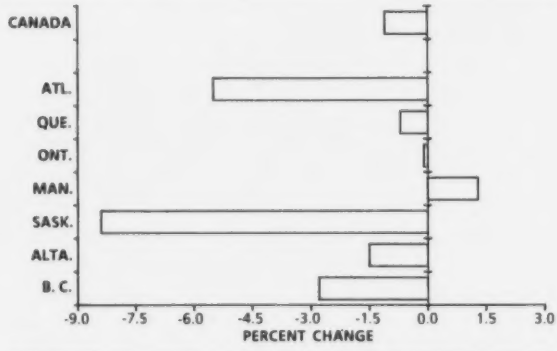


FIGURE 10.4 FARM CASH RECEIPTS FOR HOGS: STATUS QUO VERSUS NO INTERVENTION

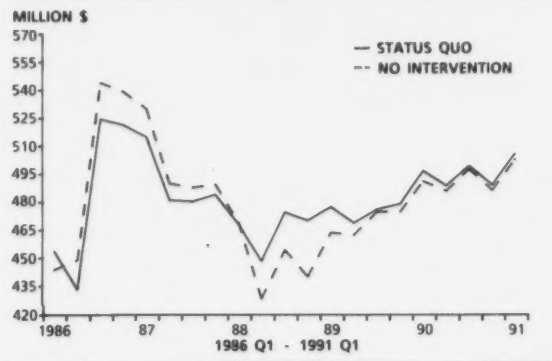


FIGURE 10.5 HOG MARKETINGS IN CANADA: STATUS QUO VERSUS NATIONAL TRIPARTITE

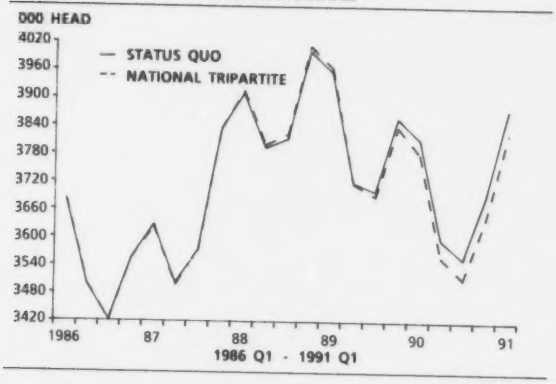


FIGURE 10.6 HOG PRICES IN CANADA: STATUS QUO VERSUS NATIONAL TRIPARTITE

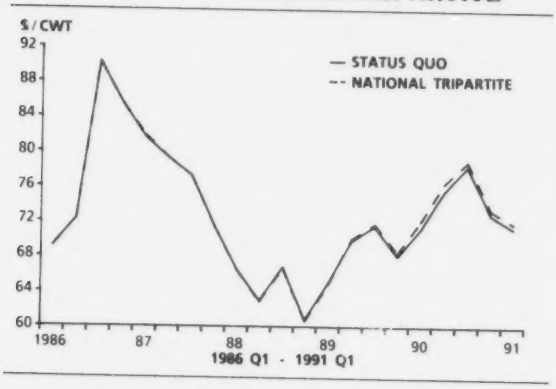


FIGURE 10.7 REGIONAL HOG MARKETINGS: STATUS QUO VERSUS NATIONAL TRIPARTITE

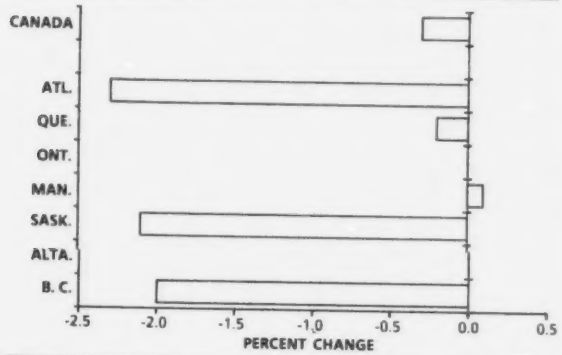


FIGURE 10.8 FARM CASH RECEIPTS FOR HOGS: STATUS QUO VERSUS NATIONAL TRIPARTITE

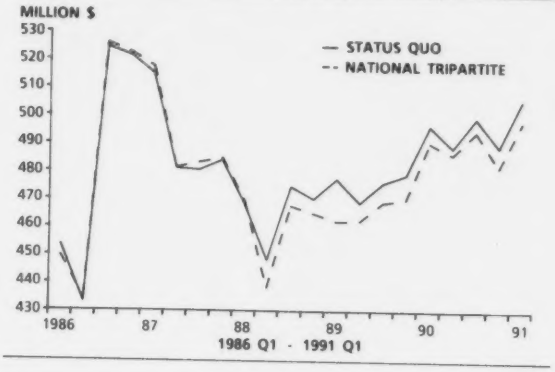


FIGURE 10.9 HOG MARKETINGS IN CANADA: STATUS QUO VERSUS SUPPLY MANAGEMENT

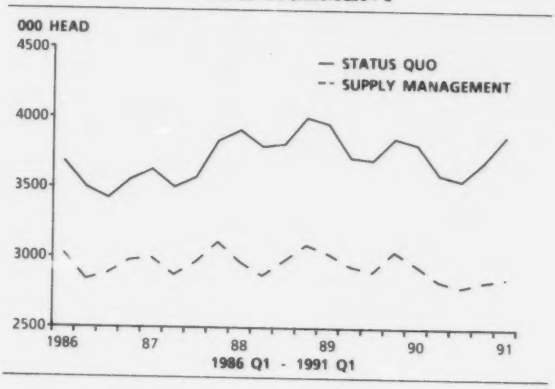


FIGURE 10.10 HOG PRICES IN CANADA: STATUS QUO VERSUS SUPPLY MANAGEMENT

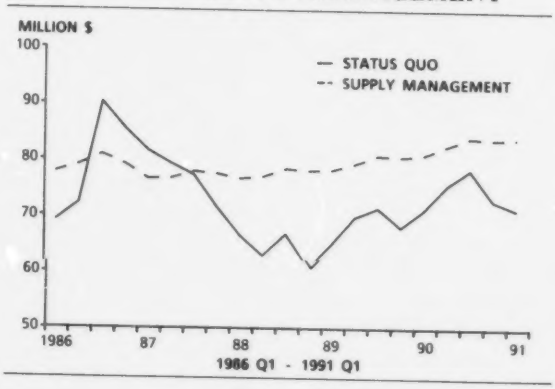


FIGURE 10.11 REGIONAL HOG MARKETINGS: STATUS QUO VERSUS SUPPLY MANAGEMENT

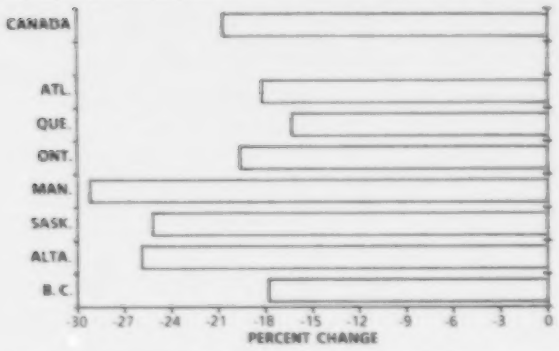
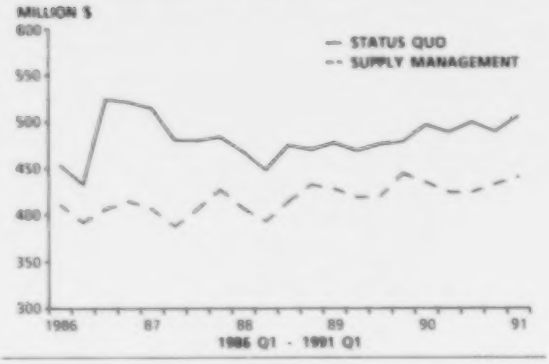


FIGURE 10.12 FARM CASH RECEIPTS FOR HOGS: STATUS QUO VERSUS SUPPLY MANAGEMENT



11

Trade Implications of Hog Marketing Alternatives

Michele Veeman
Department of Rural Economy
University of Alberta

As a background to this discussion of the implications for trade of the various marketing options considered in this workshop, the increasing importance of international trade to the hog and pork industry should be recognized. This is highlighted in Table 11.1. While the volume of pork exports increased by six times between 1970 and 1985, net exports increased even more, since imports increased by only one and a half times over this 15-year period. By 1985, pork exports accounted for more than 20% of commercial pork production, and more than 7% of hog marketings were accounted for by the export of live hogs. In total, therefore, nearly 30% of Canadian hog production is destined for export markets. More than four fifths of these exports are to the U.S., while much of the remainder is exported to Japan.

The importance of international trade to the Canadian hog industry is also seen if the value of hog and pork exports is compared with farm cash receipts from hogs. This export value amounted to some 37% of the value of farm cash receipts from hogs in 1985. The effects on trade of the various marketing alternatives considered by this workshop are therefore of considerable importance to the economic situation of hog producers.

Alternative market scenarios are analyzed in the workshop study titled *Policy Issues and Alternatives Facing the Canadian Hog Industry*, by J.C. Gilson and R. Saint-Louis. We generally assess economic modeling analyses in terms of, first, the ability of the underlying model to predict events in the industry and, second, the realism of the assumptions used in the modeling exercise. Our ability to apply the first of these general tests to this study is limited by the feature that all alternatives except the status quo option simulate hypothetical events. However, we still may judge these simulations in terms of whether their predictions are credible and in terms of the realism of the assumptions on which the predictions are based.

My judgment of the alternative market scenarios analyzed in the study is that the general results of the modeling exercises are credible, given their assumptions, but that the assumptions of substantial net exports for two of the supply management alternatives are highly unrealistic.

The projected international trade implications of two of the alternatives, namely the status quo and full tripartite stabilization alternatives, are not very different. Under the status quo option, exports of live hogs would be about 7.5% of production while pork exports would amount to 23.8% of production. Compared with this, the full tripartite option involves very minor effects on international trade. The no intervention option does involve some trade impacts, mainly because of the forecast reduction in hog production, which is due to the assumed removal of provincial programs (offset to some degree by the removal of U.S. countervailing duties on hogs). The model assumes that exports to destinations other than the U.S. can be maintained at status quo levels, and forecasts that exports from Canada to the U.S. would fall by 10%. This suggests a fall overall in the volume of exports by 8%. However, this model version forecasts an average reduction in farm cash receipts of less than 1%, since higher levels of domestic prices would result from removal of the U.S. countervailing duties. This seems to be a reasonably plausible forecast.

The supply management options do not involve forecasts of exports and imports. Rather, assumptions are made regarding the volume of trade and the level of prices. The resulting forecasts of production, consumption and revenue are dependent on these assumptions. The importance of the

assumed trade flows to the economic outcomes of the supply management options is evident. When net exports are assumed to be zero, farm cash receipts are forecast to average 22% less than under the base option or status quo, and when exports are assumed to be 10% of production, farm cash receipts are forecast to be 13% less than under status quo conditions (based on the assumed median level of domestic prices). Only when exports are assumed to be 25% of production are forecast cash receipts for hogs greater than under the status quo option. Under these assumptions, cash receipts are only 4% greater than under the status quo option. These projections are not surprising, given that nearly 30% of Canadian hog and pork production currently is being exported and given that consumers have a number of substitutes for pork.

Since the level of exports is so crucial to the economic outcome of the supply management scenarios and since the likelihood of net exports being zero or near zero is so much higher than the likelihood that 25% or production would be exported under a supply management option, the risks and potential costs of supply management for the Canadian hog industry seem to be extremely high.

In 1984 slightly more than 80% of our pork exports went to the U.S., as did nearly all hog exports. Some 65% of Canadian pork imports were from the U.S. While the restriction of imports in support of a domestic supply restraint program is allowed under current GATT rules, the fact that the U.S. has been so aggressive in its pursuit and application of countervailing duties suggests that assumptions of zero imports and substantial exports are unrealistic. The study by Gilson and Saint-Louis, which is the topic of this workshop, indicates that U.S. imposition of countervailing duties has had a major effect in offsetting the revenue benefits to producers of various Canadian domestic stabilization programs. One would also expect this to be the case should Canada move to limit imports and/or consistently sell on the export market at price levels less than those prevailing in the Canadian domestic market.

Experience from other supply management programs may be useful in assessing the realism of assumptions of substantial exports under such a program. The example of the poultry industries certainly does not support the suggestion that substantial exports could be achieved with supply management programs. For eggs, trade and production allocations in 1973 were for a net export balance, with imports at 0.2% of production and exports at 2.4% of production. After 10 years, however, imports had increased by more than seven times their 1973 level and exports had fallen to about one third of their 1973 level, resulting in a net import balance. While their net trade balances are not large, imports also exceed exports for broilers and turkeys.

Protectionist fervor is always more evident in periods of trade deficits. Since the recent depreciation of the U.S. dollar is likely to reduce the U.S. trade deficit over the next year or so, it is possible that protectionist sentiment in the U.S. may also be reduced. However, this is a risky possibility upon which to gamble the economic situation of the Canadian hog industry. From the point of view of the trade and revenue implications of the marketing alternatives considered in the study, the supply management options are clearly the most risky and potentially most costly options.

Demand enhancement policies are not emphasized in the study by Gilson and Saint-Louis. In my opinion, policies to enhance demand and to protect against major market instability are likely to be much less risky and less costly policy alternatives than is supply management for the Canadian hog industry.

TABLE 11.1 SELECTED DATA ON TRADE IN THE CANADIAN HOG/PORK INDUSTRY, 1970, 1984 AND 1985

	1970	1984	1985
Exports of pork	32.3	175.3	196.5
Imports of pork	11.9	14.7	17.0
Net	20.4	160.6	179.5
Exports as a share of commercial pork production (%)	5.2	20.3	21.8
Exports of live hogs (000 head)	88.2	1 346.5	1 152.4
Imports of live hogs (000 head)	3.9	0.2	0.3
Net (000 head)	84.3	1 346.3	1 152.1
Exports as a share of hog marketings (%)	0.8	8.9	7.4
Value of hog and pork exports ($000)	38 418	612 659	673 870
Value as a share of all agricultural exports (%)	2.3	5.9	7.6
Value as a share of farm cash receipts from hogs (%)	7.9	37.9	37.0

Source: J.C. Gilson and R. Saint-Louis, *Policy Issues and Alternatives Facing the Canadian Hog Industry* (Ottawa: Agriculture Canada and Canadian Pork Council, 1987), Table 4.1; Agriculture Canada, Trade in Agricultural Products; and Statistics Canada, Agriculture Economic Statistics.

12

Implications for the Processing Sector

Bill McLean
Manager, Pork Operations
J.M. Schneider Inc.

The proceedings of this National Workshop on Hog Marketing Alternatives are a welcome recognition of the great interdependence of the pork industry. I would like to begin by outlining the processor's position within the industry. In simple terms, the producer controls the supply of hogs, while the consumer controls the demand for pork. The interplay between supply and demand determines the price for pork. Where do the processors fit into this simple economic model? In most cases, they do not raise hogs and they certainly do not eat pork in their role as processors.

Quite simply, processors are the translators of supply and demand between the producers and the consumers. The processors' ability to generate profits is based solely on their ability to add value to the hogs produced and to find markets for those products. This model assumes that production, processing and consumption are in balance and that the result will return a price to the producer that directly reflects the consumer demand. If processing capacity exceeds the supply of hogs, processors fight over the deficit and artificially raise prices. A good example of this is the current situation in Manitoba. I hope there is no increase in farrowing as a result of demand caused by capacity rather than by consumer demand.

Competition among packers has been and will continue to be very keen. As I stated above, packers' only solid claim to profits is the value producers they add to pork. The individual advantages and skills they have in adding value is the essence of competition among packers and will be jealously guarded.

In these National Workshop proceedings, the packers have been asked to address four options:

- maintaining the status quo;
- a full tripartite stabilization program;
- no intervention by governments; and
- supply management.

Status quo is in reality the road we have traveled. Subsidies have been minimal. I would estimate that close to 100% of pork income has come directly from the market and I really do not think it has been much of a factor in the growth of the pork industry.

There have been some negative results, with provinces fighting over industry location by using subsidies as a weapon, and by leading us down a road that may not be the most efficient for production. Our largest customer, the U.S., has imposed countervailing duties during a record-high hog market.

The level of hog production we now enjoy is based on solid consumer demand, yet we are reluctant to give up the minor subsidies that are preventing us from solidifying our largest export market.

A full tripartite stabilization program is a minor change from the status quo. Interprovincial bickering would stop if everyone could be convinced to join. Nothing would really change within Canada, and the distribution of hogs would change insignificantly. In essence, we would be retracing our steps. Standing still in a constantly changing market could be disastrous. The United States would see no difference between the status quo and tripartite options.

The big one, supply management, is the defeatist choice and indicates we cannot compete. The study by J.C. Gilson and R. Saint-Louis on *Policy Issues and Alternatives Facing the Canadian Hog Industry* portrays a rosy, controllable export market in this option. I seriously doubt the U.S. market would long remain open under it. The basis for the Canadian portion would depend on a

fall in cost of production. Since it would be used to maximize the hog price, we would soon exceed the price of hogs in the U.S. In order to sell to the U.S. market, we would have to dump our surplus onto that market.

Look at the poultry industry in Canada. It does not produce enough to supply domestic demand. If it did produce a surplus, it would not be competitive on export markets. It sure is nice to have quota, though!

No intervention is the hardest choice to make. The industry has come through some very rough times, but we have emerged stronger and more efficient.

We have reached a crossroads and have two choices: retracing our steps to a domestic industry with very little viable export business or taking a more difficult road that offers greater rewards. The United States represents 25% of our total pork market. It offers an option when processors are not competitive, and it offers us a market 10 times the size of our own domestic market. We cannot risk losing it.

We have not done badly. We have some of the finest raw material on earth to work with, but we cannot stop here. Let us improve and progress.

We cannot afford to create competitors by selling feedgrains to other pork producing countries at less than the price we sell to our own producers or by exporting our finest breeding stock or our best technology for processing. We have in this country a surplus of hogs, not a surplus of ideas.

As I mentioned above, our current level is based on that most solid of bases, consumer demand, which includes 30% export shipments. Unfortunately, this involves exchange rates, nontariff barriers and many other noncontrollable factors in the marketplace. These uncontrollable variables do not keep us from improving herd genetics. We need hogs with leaner bellies if we are to compete with Denmark and if we are to improve a declining domestic bacon market. We have to offer the domestic consumer a greater variety of leaner and more convenient pork products. We must realize that the demands of our export markets may be different from what we are used to. We have to be flexible.

The reduction of pale, soft, exudate pork (PSE) is one of the most important challenges we face and it must be conquered, if we are to continue as a major pork producing country.

In the face of massive farm bankruptcies and the rationalization of the packing industry, we tend to be gun-shy. The stabilization the industry seeks is really insurance. Is it possible to set up a producer-funded insurance program to cover these fears?

I sense a strong desire to increase production of hogs in this country. I caution the industry to make sure continued growth is based on firm consumer demand rather than to rely on excess packer capacity or subsidy payments. We do not want to end up like the potato farmer who grew potatoes for a $1.00 a bushel and sold them for $1.50 a bushel. But when he grew more potatoes, he found it still cost him $1.00 but he could only get $0.95 a bushel, and he did not have enough trucks to haul them. After a long period of thought, he came up with the solution to buy more trucks!

If we ignore the consumer demand, we ignore the hard fact that the consumer does not care what our cost of production is. The consumer can choose among many options, including beef, poultry, fish, pasta, more pork, or less pork. We have to earn and work for our share. We can control supply and we can legislate prices, but no one will tell consumers what and how much they will eat.

Let us continue to use our strengths to progress cautiously over a rocky road toward a bright future. If we fail, the option of returning to subsidized political production will be open to us.

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Implications for a Meat Trader

Don Newton
President
Canworld Foods Ltd.

Canworld Foods Ltd. is a Canadian trading house specializing in food products. While many are familiar with the concept of a trading house, I would like to give a brief outline of where our industry fits into the overall marketing of pork product, which begins with the producer.

The summary report of the study prepared for this workshop, *Policy Issues and Alternatives Facing the Canadian Hog Industry*, by J.C. Gilson and R. Saint-Louis states:

> In theory, in a competitive market system, prices in a deficit market should not exceed those in a surplus market by more than the transportation and handling cost of moving the product to areas where there is a shortage.

Quite simply the task of a trading house is to identify deficit markets and to arrange sales of the required product to that market from areas that are in surplus position. In pork, deficit and surplus markets operate like wheels spinning within wheels. In other words, while Canada as a whole is a surplus producer of pork, areas within Canada are deficit in some particular pork product. As a result, our sales include, for example, selling bellies to Kitchener from Toronto, or selling pork uteri from Kitchener to Hong Kong. While we are still considered by a few people to be just another middleman, I strongly believe that the trading houses have played a major role in maintaining and expanding the pork market in Canada. We provide access to all markets, for small and medium-sized packing houses as well as for the large ones. Our resulting volume efficiencies ensure that the costs are at a minimum. The healthy competition among trading houses ensures that the existing markets are well served and that new markets are constantly identified.

At the base of all of our business is the producer. Without a healthy industry at the producer level, the packing house and the trading house industry could not survive. Because of this, I believe a spirit of cooperation exists among all areas of the pork industry. I have had the pleasure of tackling new markets and of working on improving existing markets, with simultaneous efforts from the federal government, provincial governments, marketing boards, and packing houses as well as traders. We are all working together for the same purpose. This spirit of cooperation is being shown here today, and I thank you for the opportunity to give my point of view as someone involved in the trading house sector.

I now would like to turn to what I perceive to be the implications for trading houses under the four scenarios outlined in the preliminary report being discussed today.

The first option I would like to consider is that of no intervention. Trading houses by nature are in favor of free trade. By this I mean not only the recent endeavors of our federal government but also, in a broader sense, equal access to all markets with a minimum of government restriction. The major factor in restricting expansion of pork trade from Canada is government involvement, not by the Canadian government but by the governments of pork-deficit countries who are trying to protect their own industry and by the governments of surplus countries who are subsidizing their exports to make them artificially more competitive.

Because we do not live in a vacuum, it is virtually impossible to single-handedly adopt this option. Unless our global competitors adopt a similar attitude, we would find ourselves facing a magnified reduction of demand during periods of high prices and low pork supply. Our competitors would be required to provide a small level of

support in order to maximize their share of the global market. Conversely, during periods of oversupply and weak demand, increased levels of government support to our competitors would further weaken our position. In other words, I believe that the no intervention option would have the result of reducing prices during the high side of our hog cycle and of further reducing the price during the low side of our hog cycle.

If we did adopt a no intervention option, we would be able to enjoy some additional sales opportunities of live hogs to the United States. Of course, this also assumes that our dollar will continue to remain at current levels to help keep the price attractive. But I wonder how our exports of live hogs to the U.S. would change if the Canadian dollar strengthened to, say, 85 cents vis-à-vis the U.S. dollar.

Another option is supply management. This is one that has always struck terror in the hearts of all traders. It has always been assumed that production would be brought in line with domestic consumption, leaving little room for trading product either abroad or within Canada. I was heartened to see that the option presented here at least considered the idea of providing supply above the projected level of domestic consumption. While I consider this to be a step in the right direction, I still cannot support supply management.

The major problem I have with it is that various levels of controlled surpluses are not demand led. Our expansion in hog production since the early 1970s has been the result of an increased demand for pork products, either in Canada or abroad. In the supply management option outlined, the first step is to decide what surplus level we should obtain, and the next step is to go about finding the export demand to absorb this production. To me, this would likely result in our not fully exploiting a profitable market situation or in our being forced to oversupply an already depressed market.

Other problems I have relate to the assumption that the United States will allow access to its markets for a specified portion of our production when we operate under a cost-of-production price basis. Whether or not we price our shipments to the United States at the U.S. market level, the majority of the price received by the producer will be determined by the cost of production. We assume that we can negotiate this access. If our hog price basis for exports is the same as that in the U.S. market, we will fare no better in other world markets than the United States does. Quite possibly, given U.S. efficiencies of scale, we would be reduced to providing live hogs for the U.S. process and export trade. In short we could have a total reliance on a single export item – live hogs – to a single export market – the United States – for all of our surplus product. With supply management, we would have a quantity of product to sell that is not market led and at a price that is based on the supply price of one potential customer. This is just not "such stuff as traders' dreams are made on."

From the view of the trading house, the difference for us between the status quo approach and the one of full tripartite participation is not large. Either situation will allow our industry to be responsive while allowing producers some level of protection from the swings of the hog cycle. Under these two options we will continue to service the world demand for pork wherever price and access allows us. Make no misunderstanding: the packing house and the trading house sectors are doing a good job of exporting pork. There are areas of the world such as Brazil, Singapore and the Soviet Union that buy pork but not from Canada. In almost every case, it is as a result of price competitiveness. It is not a question of being 2% or 5% too high but rather of being 20% or 50% too high. If we want to sell to those markets, we will have to match those prices.

Canada's greatest strength is its reliability as a source of supply for the highest-quality pork products, and it is not dependent upon heavy export subsidies to exist. While the two options of status quo and full tripartite ensure the continuation of our greatest strengths, they also perpetuate what I see as a weakness in our hog industry. The tendency of hog production to swing from West to East has caused us to lose some existing and potential markets within and outside Canada. In an industry that is spread evenly in both West and East, I feel that we could be better able to take advantage of the opportunity that the size of our country gives us. For example, while larger slaughterings in the East have allowed us to expand sales in the eastern seaboard of the United States, transportation cost and shipping times have limited their effectiveness in sales through specific northwestern U.S. states. As I said earlier, supply management is not the thing my happy dreams are made of.

Instead, let me tell you about my fourth favorite dream. It is one in which the pork industry continues to have a quality of pork that is the best in the world, where pork production is more evenly spread between East and West, where returns to the producer and the packer are reasonable, where countries with deficit pork production have given up trying to support local inefficient hog

industries, and where surplus countries can no longer afford huge subsidies for their agricultural products.

You are probably wondering what my first three dreams are. The first is that the Blue Jays win the world series. The second one is that Harold Ballard sells the Maple Leafs. And the third one is that at the end of the season there are at least three players for the Argos who were there at the beginning of the season.

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Implications for the Retailer

Pierre-Paul Léger
General Director
Provigo Distribution Inc.

To the National Workshop discussion on hog marketing alternatives, I can bring the opinions and concerns of a retailer regarding pork retail sale. Although I cannot take a firm position on any of the solutions proposed in the report on *Policy Issues and Alternatives Facing the Canadian Hog Industry*, I can bring into perspective the point of view of retailers to help the industry in finalizing its decision on this matter.

Pork, as have all other red meats, has suffered a significant decline in per capita consumption over the past 15 years. The lifestyles of the 1970s and 1980s have drastically modified the eating habits of consumers.

The decline in consumption has brought about an excess of supply over demand. The retail industry is taking advantage of this situation: what retailers cannot get from one supplier they will try to bargain from another.

We all know that smaller families with double incomes, the active and health-conscious lifestyles of consumers and the wide variety of food displays have greatly altered the demand for food products. We also know that food prices have declined during the same period of time, while constant inflation has found a permanent home in our economy.

Pork, as does any other food, has to fight to maintain its place in the daily diet of the average consumer. At risk is its now very costly floor space in the retail store and its prestige on restaurant menus. Ownership of chain stores has become heavily concentrated during those past 15 years also. The greater the concentration, the greater the competition for floor space has become, especially for new foods, which consumers are always anxious to try.

Let us take the floor space of any retail store for example and compare the displays of today with those of 15 years ago. Remember that the dairy and cheese counter was not so large and attractive; the fruits and produce display did not offer such a wide variety; the bakery layout did not reflect such a great imagination; the poultry dispenser was not so sophisticated; and finally the fish counter barely existed. If we assume that the grocery and the nonedibles have remained constant, it is easy to figure out who is the great loser: it is red meats. What happens when the exposure of a product declines? It is well known: the demand falls.

We could wonder at this point what all these floor space replacements have in common. The obvious answer for the retailer is more profit. This is no great discovery. But how have these new commodities generated more profit? There are several good reasons: better support from national marketing campaigns, more attractive presentation and displays, greater variety and, above all, reduction of store labor. Those reasons should be sufficient to tickle one's imagination for the next 15 years.

Red meating retailing can be seen from two different points of view by large retailers: as a drawback because red meat has to be maintained for those consumers who have not found a red meat substitute yet; or as a drawing card as one of the main perishables that will attract and maintain consumer satisfaction with their stores. I think the retailers need support from the beef and hog industry to help them to develop reliable, new and imaginative merchandising methods.

The retail trade is using pork cuts, along with other meat commodities, in cycle to generate traffic in the store. These promotions are often loss leaders. Consumers tend to remember their cycles and to wait for the next one when composing their home menus. Consumers also tend to associate those frequent commodity promotions with

permanent low prices; regular prices are seen as excessive.

Whether it is liked or not, concentration at all levels, including processing and distribution, has taken place and will continue to take place in order to rationalize profitability. Conglomerates, especially those at the distribution level, are here to stay. Provigo sales in 1985 amounted to $4.7 billion, for example. Manufacturers have to learn to live with the trend.

The hog killing industry has gone through the same rationalization. The process has kept alive the hog producing sector. Moreover, it has contributed to enhancement of its international reputation. Very close collaboration between all interested parties is most essential for long-term business stability and profitability.

Pork exports are leveling off as international competition becomes more and more severe. The obvious reaction is to turn back toward domestic markets. There is a lot to do to recapture the Canadian consumer's interest; a professional marketing approach is the right approach.

On the dometic side of the fresh pork business, the hog packing industry, as is well known in the eastern part of our country, does not have the confidence of the large distributors. The packers do business with small companies, keeping them alive in in a saturated environment. Dumping is a common practice. We see new small distributors almost every week. Saturation does not seem to be the limiting factor. One can imagine the product quality these small distributors are peddling, to the detriment of the reputation of the whole pork industry. Once more, collaboration is the key to generating a strong synergistic effect within the whole marketplace.

In a survey of the age and the number of years of experience of the butcher at the red meat counter of any retail store, the most likely results are that butchers are 50 to 60 years old with 15 to 20 years of experience, or they are 20 to 30 years old with two to three years of experience.

This wide discrepency is due to the fact that butcher art is no longer transmitted from father to son. The retail store has to face personal rotation like any other segment of employment in the same wage range. Our industry is facing a lack of experienced labor for the butcher counter. Training schools, although they exist, are not vey numerous and are often expensive, which discourages newcomers to the trade. Little cooperation exists between the retailer, the industry and even the producers to develop educational programs that could stimulate new and imaginative presentations at the retail level for meat products.

Marketing research shows that the best adviser to influence consumers' decisions to purchase meat product is, in increasing importance:

- the health professional – 2% to 3%;
- friends, relatives, etc. – 2% to 3%;
- publicity, magazines, etc. – 8% to 10%; and
- the butcher behind the meat counter – over 80%.

From these results it is easy to project the adverse effect of not having a well-trained butcher to advise the consumer who is not quite sure whether to buy pork, beef, poultry, fish or pizza for the family meals.

Every retailer also knows that more than 80% of consumers select their supermarket based on quality, price, freshness and variety of perishables only. Do products such as beef or pork have more appeal to the consumer than poultry, dairy, fish or other products? The answers will assist in finding an aggressive marketing campaign based on quality and product attractiveness.

The consumers' expectations about meat, its appeal and its convenience are encouraging the trend toward counter-ready packages bearing national brand names that are microwavable, or easy to prepare, with spices, sauce and decorations included. This trend is already under rapid development in U.S. supermarkets. The packing industry has to develop the necessary technologies to cope with these needs of the retail industry. More sophisticated packaging and conservation methods such as controlled atmosphere, for example, are anxiously awaited by the retail trade.

Postmortem handling technologies need research and development support in order to increase shelf life of fresh meat and consequently to offer higher-quality products at the retail level.

Remember that profit at the retail end of the food chain is the ultimate criteria for survival on the store shelf. No food product can keep its position in a retail store if it does not pay its share of the rent of shelf space. The solution adopted for maintaining market share of pork on the Canadian marketplace should be one that assures consumers of a constant, high-quality supply and allows for steady and profitable distribution.

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Enhancing Market Demand Through Commodity Advertising

Lester H. Myers[1]
Chief, Food Marketing and Consumption Economics Branch
Economic Research Service
United States Department of Agriculture

Introduction

The recent financial stress experienced in North American agriculture has forced a renewed focus on how commodities and foods and marketed. More specifically, producers in various sgements of agriculture are exploring ways in which they can either expand market demand or engage in marketing activities that reduce their exposure to market uncertainties. Among the several tools available to producers and producer groups for expanding market demand, advertising and promotion activities have recently become very popular. Although used by commodity groups for many years, generic advertising and promotion expenditures have historically been small, compared with branded advertising efforts. Also the efforts have been primarily confined to a relatively few commodities. Perhaps the best-known programs are those associated with Florida citrus, milk and cotton.

Commodity advertising programs require the existence of an industry infrastructure:

- that facilitates the collection of funds from many producers;
- that is capable of developing a comprehensive and cohesive marketing and promotional program strategy; and
- that provides producers and program managers with measures of program effectiveness.

Large food marketing firms can provide these functions internally within the firm structure. Individual farmers cannot. Therefore, commodity advertising and promotion require group action and a high degree of cooperation among individual producers.

Commodity organizations use three main approaches to generate funds for financing generic advertising (Frank 1985). First, some commodity groups ask for voluntary contributions from members to suport promotional activities. Second, some marketing cooperatives require producer members to contribute to the cooperatives' promotional programs.[2] The third and most popular approach is to use state or federal legislation to require producers to pay an excise tax or assessment. Depending on the legislation, some producers may be able to obtain a refund if requested. The third approach is in the United States has been accomplished primarily through the use of state and federal marketing orders. More recently, however, commodity groups have been turning directly to Congress to enact national legislation enabling assessments on a nationwide basis, for example, in the dairy, beef and hog sectors.

As commodity checkoff programs have spread nationwide, the amount of funds available for generic advertising has increased dramatically. The U.S. dairy program assessment is 15 cents per hundredweight of milk produced. This generates about $200 million per year. The recently passed beef assessment legislation requires a payment of $1 per animal slaughtered and is expected to generate over $50 million per year for research, advertising and promotion. U.S. pork producers now are being assessed 0.25% of the live animal price to fund research, advertising and promotion of pork and pork products. The pork program is expected to generate about $25 million per year. To give an idea of the magnitude of these efforts, the Coca Cola Co. in 1985 spent about $158 million for the advertising of carbonated beverages. In other words, dairy, cattle and pork producers have suddenly joined the ranks of the largest food advertisers in the U.S.

As Canadian pork producers consider the possibility of using generic advertising as a marketing tool, it is important that there be some discussion

of the management requirements for such a program and of the likelihood for success. During the remainder of my talk, I will give an overview of how advertising can affect consumer purchase decisions; discuss the characteristics of branded and generic advertising and how each type may be similar or different; describe the characteristics of Canadian pork as a consumer product and how the product characteristics relate to the likelihood of advertising success; and outline the information and management requirements to implement, evaluate and carry out a large-scale advertising effort.

How advertising affects consumer purchases[3]

Advertising is believed to influence consumer purchase decisions via four separate mechanisms, which have been labeled precipitation, persuasion, reinforcement, and reminder (Sheth 1974). Precipitation increases the consumer's motivation level to experiment and to become a product purchaser. Persuasion encourages a consumer to distinguish and to decide between different brands within a product category. Reinforcement provides continued attention to the highly desirable qualities of a specific product or brand to encourage repeated purchases of the product or brand. Reminder encourages repeat purchases of the product category and strives to make the consumer continually aware of the essential nature of the product group within the total bundle of goods consumed (Ward, Chang and Thompson 1985).

In other words, advertising must establish in the consumer's mind:

- that he or she has a need to purchase the product;
- that specific characteristics of the product or brand will satisfy the need; and
- that the consumer is doing the "right" thing by continuing to purchase the item.

The mechanism described can help us to define the differences between commodity (generic) advertising and brand advertising. It also suggests that we need to clearly identify:

- the characteristics of the product category, say, red meat, being advertised;
- how consumers perceive the characteristics, say, protein, fat content, etc., embodied in the product category and whether they are desirable or undesirable; and
- how the specific product, say, pork, or brand characteristics are perceived in relation to the general product category characteristics.

These issues are discussed in the following sections.

Generic versus brand advertising

Ward, Chang and Thompson (1985) argue that generic or commodity advertising is intended to precipitate and remind, while brand advertising is primarily intended to persuade and reinforce. Generic advertising generally relates to a product category, such as milk, cheese, beef, pork, orange juice, etc. The object is to convince the consumer that there are benefits to be gained from consuming any specific product within the general product category. Often, although not always, the generic message with respect to agricultural commodities and foods focuses on health attributes, physical fitness or new uses. The object is to increase total product category sales without regard to brand shares. In a strict sense, it is not necessary for the consumer to recognize the geographic source of origin or the individual processor or manufacturer. For example, the National Dairy Promotion and Research Board strives only to have the consumer recognize the benefits of consuming more cheese, regardless of whether it was produced in Wisconsin or California, or is cheddar or American cheese.

In contrast, brand advertising focuses on persuading the consumer that a particular product brand contains unique and beneficial characteristics not commonly available in all brands or forms of the product. Since the focus is on increasing market share, a positive effect of brand advertising on total product category sales is not assured.

The success of any advertising program, either branded or generic, depends on the product attributes and on how easily these attributes can be recognized by the consumer. For foods, attributes such as taste, color, texture, freshness, packaging, shelf life, and so on can be easily judged by consumers; that is, advertising claims can be easily verified with the purchase/consumption experience. Foods also contain attributes that are difficult for consumers to judge. Examples include nutritional content or the affect on overall health. In these cases consumers may have to rely on third-party information to judge advertising claims.

Ward and Chang (1985) suggest that, by focusing on common product characteristics, generic advertising may encourage a low level of brand differentiation and brand advertising or may force brand advertisers to stress attributes that are difficult to evaluate directly. Given the above discussion, it should be possible to identify some general product characteristics that either enhance or retard the likelihood of successful generic advertising.

Product transformation Generic advertising is likely to be more effective for products that retain their identity through the marketing system, including fresh fruits and vegetables, meats, eggs, milk, etc. Brand advertising, on the other hand, may be most effective for products that undergo substantial transformation in the marketing process, such as grains, fibers, etc.

Homogeneity and quality standards Commodities with well-established quality standards are likely to be better candidates for generic promotion than those with vague or absent quality standards. Well-established quality standards, as for beef grades in the U.S., tend to promote product homogeneity and to make it more difficult for brand differentiation based on quality characteristics.

Product uses Knowledge of the uses for a commodity or product is essential to either branded or generic advertising success. Advertising message and target audience strategy depend on identification of uses. Generic advertising may be successful if a new use for the general product category can be identified; one prominent example is the slogan "Orange juice isn't just for breakfast anymore." Branded advertising might develop a strategy designed to establish desirable characteristics of the particular brand for specific uses, such as Idaho potatoes for baking.

Substitutes The number of close substitutes is likely to impact advertising effectiveness. Generic programs for products with close substitutes may trigger defensive advertising programs within the substitute groups. Also, if the product origins are difficult for consumers to identify, close substitutes may benefit from generic programs; for example, Wisconsin cheese advertising may benefit California cheese producers, if the origin of production is not well identified on the package and/or in the minds of consumers. Also, cross price elasticities between close substitutes may be such that advertisers cannot realize sufficient price enhancement to offset the added marketing expenses. On the other hand, it is possible that advertising could be successful in establishing stronger product differentiation, thereby reducing the degree of substitution in the minds of consumers.

Production characteristics Geographic dispersion of production can be a problem for generic advertising efforts. The seriousness of the problem depends on the extent of differences in quality characteristics and on the mechanism for generating and disbursing advertising funds. Competition between geographic producing regions can lead to competition for funds, lack of coordinated advertising strategies and predatory marketing strategies. Some of the most successful generic commodity advertising programs have been observed for commodities having a fairly localized production area and unique product characteristics associated with the geographic production region. Examples include Florida citrus, Washington State apples, Idaho potatoes, etc.

Market penetration The ability of generic advertising to expand total sales becomes more difficult as the market approaches saturation. Products having high penetration levels whereby a large proportion of households already purchase the product must rely on increasing intensity of use to achieve market expansion. This in turn may require finding new uses for the product.

Market structure Ward and Chang (1985) argue that generic advertising has a higher chance of success in highly competitive markets. This is true, they argue, because imperfect competition presents more opportunity for brand differentiation.

Hog market characteristics

Given the general discussion presented thus far, let us now turn to the specific case of enhancing the market for Canadian pork by engaging in generic advertising. The probability of success for a generic advertising program for Canadian pork depends on a variety of factors, including general product and market characteristics, advertising strategy, funding levels and overall program management. This section focuses on the product characteristics and on how they relate to the previous discussion of likelihood for success of a generic advertising campaign.

First, consider product transformation. Pork, like other types of meat, is readily identifiable by consumers. Actually the pork market has two components. First, there is the fresh meat segment where pork cuts are sold in fresh form and where little product differentiation exists. Examples include pork loins, spare ribs, roasts, etc. The

other segment consists of processed products like bacon, hams, and sausage. These items, while readily identified as pork products, are more likely to be branded and to be subject to proprietary efforts to establish brand differentiation in the minds of consumers. However, both segments maintain a high degree of commodity recognition; that is, consumers recognize the product as a pork product. Other factors being constant, one would expect that the high maintenance of commodity recognition in final products would be a positive factor in the potential success of a generic promotion program for Canadian pork.

Now consider product homogeneity and quality standards. Fresh pork products are fairly homogeneous. Quality and grade standards are set by government regulation and are well recognized by consumers. Wtihin the overall grade and quality standards, individual producers and marketers do little to distinguish their product from pork produced by other producers. Processed products are somewhat less homogeneous. Although official product standards exist for individual products such as cured hams, individual processors attempt to differentiate their products with unique packaging, processing and other value-added services. On balance, product homogeneity and existing quality standards for Canadian pork are probably a positive factor for successful generic advertising. However, because brand differentiation exists within specific pork product categories, the generic strategy would probably have to focus on changing the general perceptions that consumers have about pork as a meat, rather than to dwell too much on specific nutritional claims. This is because of the potential for widely divergent nutritional contents across meat cuts and across brands of processed products.

How consumers use pork and pork products is well known to producers and marketing firms. There may be some potential for a generic advertising campaign designed to reposition certain pork products; for example, a campaign to encourage consumers to use bacon in their menu planning for meals other than breakfast. The success of such strategies would depend on a having fairly sophisticated knowledge of consumer perceptions of various pork products with respect to specific eating occasions.

Perhaps the most critical product characteristic relating to the potential success of a generic advertising program for Canadian pork is the nature of the substitution relationships between pork and other foods, especially other meats, and between Canadian pork and imported pork and/or pork products. If two products are considered by consumers to be very close substitutes, then a generic advertising program should strive to establish some way to increase the differentiation between the products. In other words, if beef and pork are close substitutes and if the advertising strategy for pork is to stress the advantages of consuming more red meat, beef producers could realize at least some of the gain at the expense of pork producers, who are funding the program. Similarly, if beef producers see a generic pork advertising program as a threat to their share of the red meat market, they could respond by instituting a generic program of their own as a defensive measure.

While I am not familiar with current measures of substitution relationships between meats in the Canadian market, we do have recently updated measures for the U.S. market. Our analysis suggests that beef, chicken and turkey meats are significant substitutes for pork. Other factors being constant, we estimate that a 10% increase in pork prices would result in the following increases in consumption: beef 1.1%; chicken 2.6%; and turkey 1.8%. This degree of substitution suggests that establishing a higher level of differentiation within the meat market through a generic program could represent a severe challenge.

Related to the substitution question is the effect that domestic advertising might have on export market demand. Canada exports a significant proportion of its pork production. Expanding domestic demand through generic advertising might result in some degree of price enhancement that could in turn affect Canada's competitive position in export markets. The exact nature of the net impact depends on the degree of supply response to higher prices, both in Canada and in other supplying countries. There is also the conceptual possibility that some part of any increase in Canadian domestic demand for pork resulting from advertising could be met with pork imports from other countries. This is the so-called free-rider effect, whereby groups not paying the cost of the program reap some of the benefits. Some U.S. commodity groups have attempted to minimize this problem either by assessing imports an amount equivalent to the domestic assessment or by stressing geographic identity on product labels and advertising strategy, or both.

Hogs are produced throughout Canada. This suggests that any generic advertising program should be national in scope. The alternative is a magnification of the free-rider problem. Most of the new commodity promotion programs being instituted within the U.S. require a nationwide

assessment, but do allow for some of the funds to be returned to local geographic commodity groups for use in regional advertising and promotion programs. I would argue that this sort of arrangement creates potentially serious management and coordination problems. Regional strategies are likely to differ between regions and with the national program. Assuring that messages do not conflict or are not predatory is difficult. Also, as indicated below, developing and maintaining an extensive data base on advertising expenditures, sales, media mix and so on is vitally important to the management of a sound commodity promotion program. Having the expenditures spread across several regional organizations complicates this process.

Pork is not an unknown or untested food product for the great majority of consumers; that is, market penetration is high. Advertising message strategy would have to recognize that new sales will be generated primarily by convincing users to consume more pork rather than by attracting new users. Designing a strategy to effectively increase consumption rates requires sophisticated market testing and probing of consumer preferences and perceptions.

Information and management requirements

Many commodity groups have little experience with sophisticated advertising and promotion programs. Because of this, it is difficult for some of them to organize and fund the management infrastructure needed to develop a marketing strategy; to diagnose advertising copy and strategy effectiveness as measured by recall, product awareness and consumer perceptions; and to measure the effect of advertising on sales and producer returns. The most successful programs have developed a comprehensive management system that includes extensive market research, data collection and economic evaluation.

The development of an advertising strategy for pork requires information on consumer perceptions of the product and knowledge of how pork is used in menu planning. Given this information, a strategy is developed to counteract negative perceptions and/or to encourage new patterns of expanded use. Copy testing is then necessary to determine if the desired message is being communicated. Tracking studies are necessary to monitor how consumer awareness and perceptions change over time and whether the changes are consistent with desired goals. Finally, economic analysis is required to measure the impact of advertising expenditures on consumer demand and on producer returns.

These activities rest on strong market research, economic research, marketing management and timely data collection.

Summary

Commodity advertising programs are becoming increasingly popular as a way for producers to get involved in the marketing process. Their success or failure depends on many factors, including product characteristics, market conditions and program management. A priori it is difficult to predict the potential success of a generic program for Canadian pork. Certainly the Canadian industry will want to carefully monitor current efforts within the U.S. pork and beef industries. Their degree of success should carry strong implications for the possible success of a Canadian program. One can be confident, however, that advertising by itself will not solve all the problems. Overall market expansion is closely related to growth rates in population and personal income. Advertising can be expected to add only marginally to the growth resulting from income and population factors. However, where demand is inelastic, even moderate demand expansion could prove economically feasible to producers who provide the funding.

Notes

1 Comments reflect opinions of the author and do not necessarily represent official USDA positions.

2 This often involves large cooperatives with brand-identified products, e.g., Ocean Spray. In such cases, the advertising may bear closer resemblance to branded advertising than to generic commodity advertising, except that the producer is paying the full advertising costs.

3 The next two sections draw heavily on an article by Ward, Chang and Thompson (1985).

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Lessons from Other Supply Management Programs

Glenn Flaten
Member
National Farm Products Marketing Council

In quickly looking at the study prepared for this National Workshop by J.C. Gilson and R. Saint-Louis on *Policy Issues and Alternatives Facing the Canadian Hog Industry*, I tend to be a little pessimistic about the use of models. I guess one has to look at it in terms of the assumptions that are made in the models. I wondered about a few things while I was reading through the study. If the U.S. producers were to increase their production by 10% or 15%, what would be the impact in Canada? I suspect that the changes that would take place and the draws on the stabilization funds and that sort of thing would increase a great deal.

For this workshop, I was asked to look at some of the aspects that are involved in national marketing agencies. I rather suspect this is a very popular topic among the group participating in the workshop. I think it is something to look at as one of the alternatives. The pros and cons associated with it should be examined and put into perspective.

The national farm products marketing agencies operate under the Farm Products Marketing Agencies Act, which is an act of the federal government. In order to operate a supply management program for a commodity, it is necessary to have federal-provincial agreement. This means those provinces and boards involved in national agencies require agreement between the provincial governments, the provincial supervisory boards and the marketing boards within the province, along with the government of Canada and the National Farm Products Marketing Council regarding the commodity. If all provinces and all commodity boards are involved, it means you have to get agreement among 33 people to put the operation in place.

The role of the National Farm Products Marketing Council is very similar to that of the super boards in the provinces, which are responsible for the operation of provincial boards, in which all of you are involved. Its function is to monitor the operations of the agencies to see that they operate within the act and the federal-provincial agreement. Also we act as an arbitrator of complaints or appeals by the people who are involved as members of the agreement. Often we now find we are getting into third-party appeals as well.

There is a need for the provincial boards to have the powers to do what an agency may want to do. Not all agencies need to operate with the same amount of powers or to do the same job as other agencies. Some have fully supply management powers, whereas some may be involved only in terms of marketing, as hog boards do. It is possible, of course, for boards to operate only to advertise collectively, as the Canadian Pork Council is doing at the present time.

In order to engage in supply management, the provincial boards must have the power to operate supply management programs within the province. Because the national agencies allot the quota to the provinces, it is a responsbility of the provinces to allot the quota to individual producers. This involves dovetailing actions together, which is difficult to do right at the moment in terms of what is going to happen in the bilateral trade discussions that are going on. Certainly there has been a good deal of discussion of late as to where the role of marketing boards or marketing agencies are going to fit into this. The other things to keep in mind are the impact these decisions may have on the upcoming negotiations that are just beginning among member countries of the General Agreement on Tariffs and Trade and on the role for marketing organizations that may be decided at them within the International Federation of Agricultural Producers (IFAP). We have had some initial discussions regarding

GATT. A meeting is coming up on September 25 in Geneva to resume the GATT discussions. Hopefully, as an international farmers' organization, we will have some more input in terms of the discussions that are going on, although obviously we are not directly involved in the negotiations.

The marketing agencies can operate in all provinces or they can operate only in the provinces wishing to belong to them. For chickens, eggs and turkeys, all of the provinces are involved in the plans. A new one is just starting and is in the process of getting established, namely the Canadian Broiler Hatching Egg Marketing Agency. It is starting out with three provinces, Quebec, Ontario and Mani-toba, with the possibility of others coming in at a later ime.

The commodities involved in marketing agencies do not get any assistance from government in terms of stabilization programs, either federally or provincially. Since their establishment, they have been able to get their returns from the market through the programs of supply management and the pricing they are able to achieve. With experience, they have been able to maintain relatively stable prices, stable production in terms of the effective demand for the product, and a relatively stable price to consumers. Remember, of course, that they establish the price or negotiate the price at the producer level only. The markups made either at the processing or at the retail level are outside the scope of the agencies. These can vary according to market conditions or to the relative amount of margin that the other people in the trade want to assess.

Of course, if an agency is going to work, it is important that the boards and producers work together. One of the things that can be done is to jointly look at international trade, if the producers in the whole country want to get together to achieve this kind of end for their work. Through negotiations, the poultry agencies have been able to establish border controls for product imported into the country. A global quota was established by negotiation when the agencies came into effect on the basis of average importations that existed prior to this time. There is a provision for supplementary quotas, which are handled by External Affairs, if the market needs the product and if it cannot be accessed within Canada or accessed in the form in which the processors or the trade want it. With this provision, the producers through their boards and agencies cannot artificially short the market. They are prevented from doing so by the application of supplementary quotas.

Obviously there are problems: it seems nothing in this world comes without problems, and I think one has to be aware of what they are.

In my personal view, I think one of the biggest difficulties we have in national agencies is provincialism. People look at their own market in terms of their own province. It is very difficult for people who become directors of national agencies or who are involved in them to think from a national point of view, in order to look at Canadian production or Canadian marketing, rather than from a strictly provincial point of view. I would say this is a problem not only of the national agencies but also of provincial marketing boards, in terms of some of the difficulties involved in some of the issues faced.

Another problem is the value of quota that has been established in many supply management programs. I think that if it is nipped in the bud and looked at in the early stages, this problem can be at least partially avoided. It may well be that if the quota remains in the ownership of the board itself and if the producers get the use of it for the time they are engaged in production, rather than own it outright, such problems could be reduced.

Boards have to work out a balance in terms of the use of quota between the security of it and the cost of it. There is also the problem of the base allocation. Historically agencies have used a five-year average production level prior to the establishment of the agency as the base for provincial allocation. This can be a problem in terms of what to do afterward in the case of overbase. This is one of the situations we are looking at in some of the poultry boards and agencies at the present time.

There is competition certainly in the meat sector. I have thrown this out to other groups: I think the people in the pork and the beef industry should be thankful there are marketing agencies in poultry. If there were not and if the producers in the poultry industry had to accept the same kind of prices their counterparts in the U.S. do, the competition to beef and pork would be much more keen than it is at the present time because of lower prices. I think in that sense it is a good thing for pork producers to have the agencies in the poultry business.

Agencies may or may not have buy-back powers of product. The Canadian Egg Marketing Agency buys back surplus product and moves it to the breakers and that kind of thing. It does not have to be this way; it depends on the way the boards want to operate. I often think in looking at this sort of situation that we tend to think very often that

increasing the total supply is good for us. It is the sort of thing we want to look at. I guess I tend to caution people at times that there is a difference between what is good for an industry or good for other sectors of the industry, compared with what might be good for the individual producer. I have seen it often in the poultry business prior to the time that boards were established. We thought it was good to expand and to get bigger. At times, we thought that if we cut our production by 5% or even by 10%, perhaps we could double or quadruple our profits because we would be able to get enough price at that point to make some money out of it rather than on the other side.

Toward the end of April, we plan to conduct hearings across Canada regarding the establishment of a national potato marketing agency. This is going to be an interesting one because it is going to be different from the other agencies in the sense that export markets are going to be an integral part of the agency. Canada exports a lot of potatoes both for table use and particularly for seed use. It will therefore be important that the plan have incorporated into it an export function. We are competitive in the world market in potatoes, but not competitive in terms of poultry products. The results of the hearing process and, if it goes beyond the hearing, the establishment of a potato agency will indeed by interesting. So an agency does not necessarily need to be restrictive. It does not necessarily have to apply only to the Canadian market. If the will is indeed there to make it work, it can apply in other ways as well.

It is interesting to note that, since the establishment of the Canadian Chicken Marketing Agency in 1979, production is up roughly 60% of what it was just prior to that. As a result, there has been a major increase in chicken meat production within the country. This year, the marketing agencies are gearing up for a 9% increase in chicken production in 1987 and for a 7% increase in turkey production for the Canadian market.

The operation of the marketing agencies has other results as well. Although they do not want to admit it, I suppose the processing trade has done quite well over time because of the operation of the agencies in terms of security, in terms of production levels and in terms of the supply that comes with them. If processors indeed work closely with producers, there is a benefit even in terms of timing production throughout the year.

There is need for innovation, I think, for new ideas, and for thinking up ways in which they might work better. Some of that has been incorporated into the hatching egg agency. We have benefited from the experience of the others, and some ideas that make them work better have been incorporated. Basically there is a need for a will to make it work. This means that producers have to agree collectively that they are going to make it work. If they are not prepared to work at it, then obviously it is going to have trouble or is not going to work at all. It takes a lot of work to get it going, to get it operating and to keep it operating afterward. It takes cooperation. As I said earlier, I think provincialism is one of the big steps we have to overcome. It takes cooperation among producers to overcome that sort of thing. We now have the precedents of other agencies for any new ones, such as the hatching egg and the potato agencies, that might come on board. Their experiences and the kinds of things producers have had to overcome in the past can be of assistance in coping with some of the teething problems of the agencies that follow.

The other thing, of course, is the accountability to the public of what is done by the marketing boards. Certainly the activities and the operations of the agencies and its boards are very visible to the public. Therefore one of the jobs of the National Farm Products Marketing Council is to help see that it is done.

I might conclude by saying that there is no obstacle that cannot be overcome either by setting them up or by making them work, if there is a will to do so. I think this is really the bottom line to the operation of agencies.

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Marketing Issues and Challenges Facing the Canadian Pork Sector

J.C. Gilson
Department of Agricultural Economics
University of Manitoba

Anyone attending farm conferences during the past three years will have sensed a growing uncertainty and pessimism about the prospects for the Canadian agricultural industry. This downbeat mood has been caused by a number of factors: the increasing global food surpluses, the conflict over export subsidies and countervailing duties, the spreading trade war, two devastating droughts on the Prairies, financial stress and debt moratoria.

There is no question that the current issues in Canadian agriculture, particularly in the Prairie sector, are serious and that short-run, remedial actions will be required to help many farmers cope with their immediate problems. Farmers preoccupied with current cash flow problems, crop failures, or the need to make a payment on a debt already in arrears are not in a mood for a lecture on the longer-run prospects for their industry.

But the majority of the farmers are not about to be admitted to an intensive care unit – not yet. Their vital signs are evident, even if they are showing symptoms of the stress and strain of the past few years.

Anyone associated with the agriculture industry over the past three decades will know that the margin between boom and bust can be a narrow one and that circumstances can change rapidly. The industry did not end in disaster during the late 1960s, as many had predicted, and the boom conditions of the 1970s could not have continued indefinitely, as many began to believe.

During the 1980s, as in previous decades, it is reasonable to assume that Canadian agriculture is fundamentally a viable industry in the longer run, even if short-run events tend to undermine our confidence.

Now is the time to look beyond the heavy mist of pessimism and uncertainty to the longer-run challenges, opportunities and prospects for the industry. Even while coping with the immediate problems, there is a need to build on a more permanent foundation for the agriculture industry of the country.

In planning for the future, we face several general options: we can resign ourselves to the passive option, riding along from obstacle to obstacle on the current of rapidly changing events, convinced that there is little that can be done in an industry faced by unpredictable and unmanageable forces; we can circle the wagons in the attempt to isolate and protect ourselves from external events; or we can confront the obstacles in our industry with the determination to take whatever initiatives are necessary, possible and appropriate to build on the fundamental strengths and advantages we possess.

Nowhere has the ability to respond to the challenges been more evident than in the Canadian hog industry. The past accomplishments have been impressive. But this industry is confronted by rapidly changing events and there is no room for complacency.

Colorful baseball pitcher Satchel Paige once said about his remarkable career that he never looked back on his records and accomplishments because he was afraid to; he could always hear footsteps coming up from behind. The footsteps of competition and changing circumstances in the Canadian hog industry are always threatening to take the lead.

Domestic issues and challenges

A number of fundamental questions need to be confronted before one can determine which of several policy options would be best for the Canadian hog industry:

- Is the Canadian hog industry to operate with an open trade or a closed economy?
- Is Canada to have one common market or 10 provincial markets for the production, marketing and pricing of hogs and pork products?
- What are the implications and effects of the various policy alternatives in the Canadian hog sector for substitute products such as beef, poultry meat and fish?
- What are the implications of the policy alternative for the Canadian hog industry in terms of:
  - the relationship with other trading partners?
  - the general principles underlying the General Agreement in Tariffs and Trade (GATT)?
- What are the public (taxpayer, consumer) and private costs and benefits for each of the policy alternatives that might be adopted by the Canadian hog industry?

Marketing policy alternatives

Several times during the past quarter-century, Canadian hog producers have been confronted with and have had to select from a set of widely divergent policy options.

One of the first major policy questions related to the matter of competition in the marketplace. Hog producers faced a number of alternatives in attempting to cope with their lack of bargaining power: producer selling cooperatives; forward integration in the form of cooperative packing plants; anticombines legislation; and compulsory marketing boards, with or without comprehensive supply management regulations and control.

All of theses policy options were widely debated in the hog industry and were eventually adopted at one time or another. In the final analysis, it was the development of hog marketing boards that provided Canadian hog producers with their most effective form of countervailing power and that led in turn to a form of "workable competition" in the marketplace.

It is significant to note that hog producers did not go the full distance along the supply management and regulatory route. They chose instead to combine marketing boards with appropriate government price stabilization programs or the best combination of policies to achieve the basic objectives of their industry.

Since 1971, hog producers have focused their attention primarily on improved forms of government price and income stabilization programs.

Current issues facing the Canadian hog industry appear to be no less challenging than those confronted during the past 25 years. The search continues for policy alternatives.

The search ranges across a broad spectrum of possibilities, from policy alternatives calling for minimum public intervention in the hog marketing system, to policy options that would require considerable regulation and control of the industry.

Will it be the weaknesses, or will it be the strengths and possibilities, that will shape the hog industry of the future? Will the current difficulties associated with the international marketplace cause hog producers to turn inward and to focus exclusively on the dometic market? Or does the Canadian hog industry possess the underlying strength and competitiveness to maintain an enduring position in markets beyond the national borders? Are there to be 25 million customers or twice that number for the hog producers' output? Consolidation or growth: which is it to be?

If the accomplishments of the past four or five years can be taken as the starting point for the discussion of policy alternatives, the answer seems clear – continued growth in the domestic and international marketplace. Policies representing consolidation would appear to be the last line of defence if the initiatives for continued growth began to fail.

Prerequisites for continued growth

Several prerequisites appear necessary for continued growth:

- product quality;
- reliability of supply;
- production, marketing and overall system efficiency; and
- product innovation and promotion.

Continued expansion in domestic and international markets will depend first of all on a quality product. The near monopoly Canada once had as a producer of quality pork products no longer holds. Research and development programs in breeding, physiology, nutrition and management will be an indispensable part of the strategy for continued penetration of domestic and foreign markets.

Reliability of supply, particularly in foreign markets, will prove to be as important for pork products as it has been for Canada's wheat exports.

Customer loyalty cannot be maintained on the basis of a product that is treated as a residual in international markets. Shelf space once gained in foreign markets must be maintained.

A high-quality product in itself will not be a guarantee of success. The product must be produced efficiently if it is to compete successfully for the consumer's dollar. The efficiency must start at the farm level of production, but the producers' efficiency must not be negated by inefficiencies further upstream in the hog/pork system. The entire system must demonstrate efficiency. As trite as it sounds, the chain will be as strong as its weaket link. A pound of live hog produced efficiently will be of little value if a pound of pork is produced inefficiently.

Finally, product innovation and promotion will be necessary if pork products are to compete with other substitutes such as poultry meat and fish as well as imported pork products. In many businesses, it is not uncommon to spend anywhere from 2% to 5% of the sales dollar on product promotion and market development. With close to $2 billion worth of sales, a 2% allocation for product promotion and development would amount to $40 million annually. There is no question that funds of this order of magnitude will be required if an effective market development program is to be undertaken in domestic and international markets. The footsteps of competition in the form of substitute products are becoming more and more audible in the background.

International issues and challenges

Two major aspects of the international markets are examined below:

- subsidies and countervailing duties; and
- competitive ability and product promotion in foreign markets.

Subsidies and countervailing duties

Canada has had experience with the subsidy issue and countervailing duties with both the European Economic Community and the United States.

During 1983 and 1984 the quantities of processed pork products exported from the EEC to Canada increased dramatically. Canadian pork producers and the Canadian Meat Council charged that EEC processed pork products (canned hams, canned picnics and canned luncheon meats primarily from The Netherlands and Denmark) were heavily subsidized under the EEC Common Agricultural Policy. Accordingly, the Canadian Meat Council (supported by Canadian hog producers) petitioned the Department of National Revenue for a countervailing duty (CVD) on the three pork products. A CVD was imposed on the EEC pork products in August 1984.

The values of the CVD imposed amounted to the following. For canned ham from The Netherlands, the CVD was 33.1 cents per pound and from Denmark, 24.3 cents per pound. For canned luncheon meat from The Netherlands, the CVD was 17.5 cents per pound and from Denmark, 12.7 cents per pound. No CVD was imposed on canned picnic meats.

While the Canadian CVD on the subsidized EEC pork exports to Canada succeeded in resolving the immediate bilateral difficulties over pork between Canada and the EEC, EEC subsidized pork exports created further difficulties for Canada in third countries, primarily Japan. Japan, traditionally a large importer of Canadian pork products, began to import increasing quantities of EEC pork. It is not a coincidence that Canadian pork has formed a decreasing proportion of Japanese imports during the past several years. On October 13, 1985, for example, the EEC export subsidy on canned ham amounted to only 6 ECU per 100 kilograms for exports to Canada and the U.S., but it amounted to 37 ECU per 100 kilograms for exports to othe countries.

In July 1985 the U.S. International Trade Commission and the U.S. Commerce department in its final determination imposed a countervailing duty on Canadian live hog exports to the U.S. In its determination, the U.S. imposed a CVD equivalent to the federal and provincial subsidy programs, including both top- and bottom-loading subsidies.

Much more could be said about the Canadian conflicts with the EEC and the U.S. over the hog/pork subsidy and countervailing duty issues. Here focus is concentrated on the fundamental question relating to definition of subsidy.

One of the most important items on the agenda of the Uruguay Round of multilateral trade negotiations under the GATT is expected to be domestic subsidies. It is far from clear what a domestic subsidy is, when and under what circumstances a domestic subsidy can be defined as an export subsidy, when such a subsidy is countervailable, and how material injury or the threat of material injury resulting from the domestic subsidy is to be measured and assessed.

The GATT defintions of subsidies and countervailing duties adopted by the contracting parties at the conclusion of the Tokyo Round of GATT talks acknowledge the difficulties associated with

domestic subsidies and countervailing duties. The agreement observes that:

> Signatories recognize subsidies other than export subsidies are widely used as important instruments for the promotion of social and economic policy objectives and do not intend to restrict the right of signatories to use such subsidies to achieve these and other important policy objectives which they considerable desirable.

The agreement provides little guidance on the types of subsidies that should be of purely domestic concern and those that should be subject to international negotiation and disciplinary action. The agreement states simply that "subsidies other than export subsidies...may cause...injury to a domestic industry of another signatory.... Signatories shall therefore seek to avoid causing such effects through the use of subsidies."

If one examines the legislative history related to the development of the federal and provincial hog stabilization policies in Canada, it will be recognized that these programs were designed to cope with regional and domestic problems within Canada. There was no deliberate or conscious attempt to use the stabilization programs as a form of unfair trade practice in gaining entry to other national markets. If these domestic programs are in violation of acceptable agricultural trading policies and practices, Canada, as one of the important signatories of the GATT, has a right to expect more explicit guidelines from the major agricultural trading nations as to what is mutually acceptable and appropriate. Indeed, Canada has an obligation to help develop such guidelines. It follows as well that Canada has a right to expect that other nations with whom it trades to align their domestic agricultural policies with acceptable multilateral trade practices also.

Competitive ability and product promotion in foreign markets

If it can be assumed that Canadian hog producers can compete effectively with foreign producers in third-country markets and if fair and explicit trade rules have been adopted, a question remains as to what steps Canada should take to strengthen its product development and promotion activities in foreign markets.

Generally, one of the first steps to be taken is to research the target market for particular products. One should know as much as possible about such factors as local attitudes and customs; potential size of the market; types of markets, whether open, mixed or state trading; factors influencing consumption of given products; language requirements; health regulations relating to certain types of products; packaging, branding and labeling practices and regulations; nature of the competition from domestic producers and other countries competing for the target market; pricing practices for the products; and current and past prices for the products in question. In general, research on the target market should reveal the possibilites for Canadian exports in competing in the target market (whether a more intensive follow-up is warranted) and under what general circumstances the potential exporter must operate in moving product to the market.

Once the potential export market has been analyzed and the possibilities revealed, consideration has to be given to practical questions of market penetration and development. Questions must be raised as to how a given product is to be initiated, promoted and its consumption expanded in the market. Personal visits to the target market and product exhibits may be necessary.

Once the potential exporter has succeeded in getting a potential buyer interested in the product, a whole series of steps must be followed in completing the sales transaction. These steps may be taken by the potential exporter alone or by an agent working on behalf of the exporter. These steps can be briefly described as follows.

Pricing for export The price set for the product will depend on whether the product is to be sold CIF (cost, insurance and freight), FOB (freight on board) or FAS (freight along side). Whatever the basis for pricing used, the potential exporter has to decide on a price that will cover production and factory costs and any additional costs in moving the product to a specified market destination.

Product classification for export purposes Products destined for the export market must be classified in a way that permits easy and rapid customs clearance. The classification is necessary for tariff and import duty purposes. Delays in customs clearance can lead to additional costs and serious disruption in moving the product to the ultimate buyer or customers in the target market.

Customs documentation Customs documentation is a necessary part of the paperwork associated with international trade. The customs documentation relates to such items as export declaration invoicing, packing list, insurance and duties. Most times this function is handled by customs brokers engaged by the exporter.

Nontariff barriers Nontariff barriers can be much more difficult to deal with than known

tariffs and import duties. There are no known rules or guidelines to deal with such things as antidumping regulations, product liability insurance and various types of consumer protection programs. There is no substitute for a careful investigation of the target market before shipments of actual products have taken place.

Health and grading regulations Most livestock and many food products will be subject to a variety of health and grading regulations. One of the most recent examples involved difficulties with sulphur residue found on Canadian pork products shipped to the United States. The potential exporter will need to acquaint himself as fully as possible with such regulations in the various importing countries.

Packaging Packaging has become an increasingly important part of the export movement of goods. Agencies specializing in the packaging function for export goods have considerable knowledge and experience in the best and most economical ways of packaging for air, rail, truck and water freight. They have knowledge about loading conditions and various types of conveyances used. The containerization concept has provided new ways of consolidating several product groups at reduced costs.

Freight Agencies specializing in the freight forwarding business have knowledge about the best possible ways of shipping and routing export products in terms of speed, service, cost and consolidation of cargoes, for example, in containerization for ocean shipping, for the most ecnonomical rate.

Labeling Regulations with respect to labeling vary from market to market. The exporter or agent should be acquainted with the various labeling regulations.

Financing and export credit insurance Unless the potential exporter has a highly specialized knowledge about financing and lines of credit associated with international trade, the exporter should consult a banker or some other such agency in making any financial arrangements associated with the export of the product. The financial aspects of export trading range all the way from assessing the credit rating of the importer, to lines of credit, letters of credit, factoring and export credit insurance.

Exchange rate considerations Fluctuations in the exchange rate between the exporting and importing countries have very important implications for the potential exporter of agricultural products. The exporter must consult with and depend on financial institutions to help them cope with the risks associated with fluctuations in the foreign exchange rates.

Language considerations Language can be a difficult obstacle in international trade, not only in terms of the ability to communicate between buyer and seller during negotiations, but also in terms of export documentation and labeling. The potential exporter may have to use the services of specialized translation bureaus and agencies.

Knowledge about competitors The Canadian exporter of agricultural products not only needs to have knowledge about the markets and policies of the importing country, but also should be aware of the actions and policies of the actions and policies of competitor countries. For example, sales may be lost by a Canadian exporter who is unaware of or is unable to meet the terms offered by competitors from other countries on such matters as concessional credit sales, with subsidized interest rates on long term lines of credit.

This description of the export trading system no doubt leaves the impression that exporting is a very complicated business. It is indeed a complex operation.

There is no easy shortcut to an understanding of the intricacies of international trade. Fortunately, however, the potential exporter can draw on the knowledge and experience of a great variety of agencies and organizations with highly specialized knowledge and competence relating to various phases of the export trading system.

In view of the complexity of the export trading system, it may be that the Canadian hog/pork industry should develop a "pork products institute" along the lines of the Canadian International Grains Institute.

A Canadian pork export institute should be designed to make maximum use of existing governmental and private business organizations in the conduct of its work. The institute should be supported jointly by hog producers, government and the pork processing industry.

With the cooperation of other appropriate agencies the institute could develop a longer-run framework for the systematic integration of information and services relating to pork export trade for a selected number of targeted markets. The framework would include the entire spectrum from hog producers to foreign consumer and would involve an in-depth analysis of a target market for specific products and the transmission of that specific information to all sectors of the hog/pork system.

There is little doubt that the Canadian International Grains Institute has had considerable success in targeting and researching the customer needs of specific foreign markets. The canola industry, too, has illustrated the value of a comprehensive and systematic approach taken by that industry in the development of export markets for its products.

We would emphasize that the proposed pork export institute should not attempt to take on functions and responsibilities presently being performed by existing departments of government or by private industry. Every effort would have to be made to work with and through existing agencies involved in agricultural trading matters.

Indeed, it may be that the Meat Export Research Centre at Iowa State University has already taken the lead in this area in the U.S.

The Canadian hog/pork industry has developed a strong presence in the international arena during the past 15 years, but it will take considerable effort and ingenuity to maintain that presence during the foreseeable future.

This is a challenge and opportunity Canadian hog producers and other partners in the hog/pork system must take if the industry is to continue to grow and flourish in Canada. The footsteps of competition are never far behind.

A recent example of the competition includes the Targeted Export Assistance (TEA) program under the U.S. Food Security Act. In 1986 more than $100 million was allocated for TEA, which was used, among other things, for advertising, restaurant promotion and general promotional activities for high-value and processed product exports from the U.S. to selected Pacific Rim countries, including Japan, Korea, Singapore and Malaysia.

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Summary of Discussions of the Workshops

The participants met in small workshop sessions to consider the following questions. The results of the discussions were then reported to the plenary session.

- Since 1977, Canada's pork production has about doubled and we have moved from being a net importer of 15% of our domestic pork consumption to being a net exporter of 30% of our production. What have been our principal strengths and weaknesses during this period?
- What is a reasonable export objective for the 1990s in terms of percentage of production? What are the constraints to achieving this? What are the appropriate policies for meeting it?
- Should Canadian pork exports become more diversified by type (fresh and frozen, processed, etc.) and by country of destination? If yes, what are the means of achieving this?
- In connection with the above two questions, what are the respective roles of producers, other industry sectors, and government in domestic and export market development?
- Is it desirable to have a single national price or income support program? If so, what would be its components?

WORKSHOP I

Chairman:	**Stephen Moffett**
Reporting Secretary:	**Jack Gellner**
Advisers:	**Larry Young**
	Ed Schultz

Question 1: Production expansion since 1977

The factors underlying the increase in pork production tended to vary considerably by region, reflecting the particular characteristics of the regions. A common factor, however, appears to be limited production alternatives because of restrictions on supply-managed commodities and the lack of a land base in some regions.

Factors identified included:

- a high-quality product because of a good grading and inspection system;
- the ability to react quickly to market opportunities because of a good producer marketing system, a strong processing sector and ample feedgrain supplies;
- technological improvements in hog production;
- the availability of financing, both private and public during the early 1970s;
- some market advantages such as proximity to the eastern U.S. market;
- federal and provincial development programs, although stabilization programs were not considered to have had major impacts on expansion.

A major weakness is the high dependence of Canadian exports on one or two markets. A major concern noted was the uncertainty surrounding future access to the U.S. market.

Question 2: Export objective

There was a general view that it is difficult and perhaps not appropriate to establish a specific export objective. It was noted that the export market is insecure; one approach could be to emphasize measures to promote a positive trading environment, as through GATT and bilateral negotiations or through aligning domestic policies with trade objectives.

Questions 3 and 4: Diversification and roles

There was support for the need to diversify pork exports in terms of both products and markets. It was noted, however, that export markets outside the EEC, U.S. and Japan are not large, and it is difficult to penetrate small markets. The idea of a national coordinating system was discussed, but no consensus was reached on what would be the

best structure. In this regard it was thought that a better understanding of how our competitors operate would be helpful.

There was a strong view that the domestic market must not be ignored in the quest to expand export markets. Domestic market development is needed to maintain, if not to expand, the domestic market share for pork. New product development is needed.

Question 5: National support program

There was a recognition of the strong links between domestic policies and international trade issues; for example, the countervailing duty on live hogs to the U.S. There was no consensus on how domestic support policies should be oriented. There was a strong view expressed by some participants that a single national program is required, whereas others felt that regional differences must be considered.

WORKSHOP II

Chairman:	**Howard Malcolm**
Reporting secretary:	**Donald West**
Advisers:	**Merritt Cluff**
	Helmut Loewen

The Workshop II participants reviewed the results of the various options discussed. It was observed that the basic issue is how to deal with price and quantity cycles in such a way as to provide producers with stable and satisfactory income from the marketplace. It was also noted that the no intervention option was a misnomer in that governments are involved in a number of activities. Since some provinces have already signed up for tripartite stabilization, it was suggested that adoption of another option now might create some legal problems.

Each of the five questions before the workshop led to a lively discussion, and the following summary may not cover all the points made.

Question 1

Canada's ability to expand production and to move to an export basis since 1977 has been related to several production and marketing developments. Producers benefited from favorable feed prices and the availability of financing. New investments were made incorporating technological developments, and breeding led to better animals. The size of enterprise grew with younger, aggressive and better-educated people more committed to hog production on a year-round basis. Also, crop and livestock alternatives were not attractive or were foreclosed, as has been the case for dairy, poultry and eggs.

Consolidation and other factors have led to greater efficiency in the slaughtering and processing industry. Marketing was facilitated by the quality of the product and collective selling through marketing boards. The more favorable exchange rate was also an important factor. Market development efforts by producers and processors in Japan such as use of contracts and the commitment by some processors to the U.S. market were also important factors.

Weaknesses or restraints during the period included the inherent riskiness of export markets in terms of both economic and political factors, the problems with pale, soft, exudite (PSE) pork, chemical residues as a nontariff barrier, and the added costs at the packer level because of smaller and more diversified operations.

Question 2

There was strong agreement that the only reasonable export objective is to export all we can; that is, all that other countries are willing to buy. It was noted that Denmark exported 80% of its output and that exports are needed to achieve an efficient size of industry in Canada. There was some concern, however, that being on an export basis implied lower hog prices. The policies identified as necessary to increase exports included an effective safety net through stabilization and payment of the Crow benefit to producers. The sector itself needs to develop continuity of supply, with processors staying in specific export markets and developing them, just as they would commit themselves to a domestic market.

Question 3

With regard to diversification of cuts and markets, it was noted that trade is in cuts, not whole carcasses. The question is one of identifying market needs and supplying them. This requires a commitment to the market, and the method differs by country. For the U.S. market, it is more of a packer-processor commitment whereas in Japan a joint producer-processor-government effort is required to overcome the added costs and risks associated with distance, time required to have an effect, and cultural differences.

Question 4

The respective roles of various participants was largely covered in discussing questions 2 and 3. It was suggested that an important role for government is to reduce trade barriers. Government also should help with market development, but producers and processors need to take the first step. There is a need for more market information and some countries require government-to-government contact.

Question 5

The group had some difficulty in defining a "national" program and especially its goals. Issues discussed, with little agreement on answers, included whether higher-cost regions should have more price protection and how to reconcile industry objectives, social objectives and regional development goals. The basic question is how to have a national program that would be fair to all and that would also reflect regional comparative advantage. Perhaps the issue is how to equalize the hurt. The question of how to accommodate U.S. concerns with regard to a level playing field also was discussed.

WORKSHOP III

Chairman:	**René Turcotte**
Reporting secretary:	**Pierre Charlebois**
Advisers:	**Robert Saint-Louis**
	Larry Sedgwick

Question 1: Strengths and weaknesses

A Nova Scotia representative reported that production doubled in Nova Scotia during the period, not to meet export demand but to fill the province's requirements.

A Quebec representative noted that the main factors contributing to the increase in Quebec's hog production were:

- the geographic location of the province;
- saturation in other areas of agricultural production (especially the dairy sector);
- government and private assistance;
- depreciation of dollar;
- contribution of feed mills and slaughtering plants; and
- the dramatic rise in grain production.

The Quebec representative mentioned that the stabilization programs were introduced after production had risen sharply.

A Manitoba representative said production in 1986 was equal to that in 1971. The province's industry is geared to export markets. It was also noted that Manitoba producers have virtually no government assistance.

A New Brunswick representative added that production doubled in this province, as in Nova Scotia, not to meet export demand but to fill provincial requirements. The representative thought it truly unfortunate that the price in each region is designed to reflect our national status as exporter. Also mentioned was the possibility of obtaining government assistance as a factor contributing to the rise in production.

An Ontario representative identified the following strengths:

- a high-quality product;
- producer specialization in hog production; and
- improved production and management techniques.

Weaknesses identified by a Nova Scotia representative included:

- the long geographic distances in Canada;
- the small population;
- vulnerability of industry to strong dollar; and
- stagnant per capita consumption.

Since production during the period increased the most in areas that had no comparative advantage in grain production, one participant wondered whether regions lost their comparative advantage in pork production when grain prices were very low. The Chair answered that in some areas grain production rapidly increased at the same time.

Questions 2, 3 and 4

It was felt that, in order to have a hope of increasing exports, the industry will have to produce meat free from antibiotic residues. According to an Ontario representative, exports are a necessary part of the industry, and so Canada will have to recapture the Japanese market.

An Alberta representative said the U.S. market will become more promising, especially if the advertising campaign south of the border spurs an increase in consumption. In the opinion of the Alberta representative, we should diversify our products and export more processed products.

Participants could not envisage a future without an export market. They felt that, if stabilization programs have to be sacrificed in order to save the export market, it should be done. One of the constraints mentioned by a Manitoba

representative is the inability of western processors to capture export markets. An Alberta representative replied that stabilization programs are already an export constraint, since they have prompted the U.S. to levy countervailing duties. No export targets need be fixed, and market forces should be left to work, the Alberta representative said.

The Chair identified two alternatives:

- to export what we can; or
- to provide a decent standard of living for producers.

According to a Nova Scotia representative, we should export where our price is not too adversely affected; we should stop exporting live hogs, for example. Others countered that producers should not assume that, by stopping exports of live hogs, the differential between Canadian and U.S. prices would be completely eliminated.

Question 5

A Manitoba representative pointed out that Canada's market is too small for the type of pricing mechanism being used. A single national price is not desirable, since some parts of the continent have larger deficits than others. Also mentioned was the fact that the price in the Atlantic provinces and Quebec is lower than or equal to the Ontario price, which is an obvious sign that the pricing mechanism is defective. After all, the entire northeastern United States is in a deficit situation. The Chair added that the electronic auction plan of the Fédération des producteurs de porc du Québec is aimed precisely at eliminaating this distortion.

A single program was not felt to be the solution by some participants. For various social reasons, it is preferable that production be maintained in certain regions. A Manitoba representative agreed, but emphasized that the assistance should be reasonable. The federal government should therefore be responsible for administering programs under which disdvantaged areas receive assistance.

A Nova Scotia representative said the alternative to hog production in some areas of the country is unemployment or welfare. This would cost the public treasury much more. An Alberta representative disagreed. Over the long term, it makes more sense to take Mohammed to the mountain than to take the mountain to Mohammed: this is basic economics, the Alberta representative said.

An Ontario representative mentioned the expansion of the restaurant industry in this country, and called for campaigns to be launched to increase pork's share in this market.

WORKSHOP IV

Chairman:	**Roy Barrett**
Reporting secretary:	**Catherine Scovil**
Advisers:	**Zuhair Hassan**
	Donald Mutch

Workshop IV began with introductions of the workshop delegates. Participants then proceeded to discuss the questions given for debate.

Question 1

The discussion began with a debate on why Canadian hog production has increased over the past few years. Numerous viewpoints were presented as to how the increase in production came about. One view was that such constraints as restricted entry and expansion found in supply management in many other commodities left hog production as a viable alternative. Another suggestion, not agreed upon by all, was the "race for base"; producers who felt that supply management would come on line in pork may have tried to increase their production so that in the event supply management was adopted, they would have a large base. Another suggestion centered on availability of export markets for excess production, which prevented prices from being depressed by excess supply on the Canadian market.

The discussion then moved to how these exports markets arose. Two opposing views were tabled. One view was that Canadian hog production is competitive on the world market and always will be and therefore export markets will always be available to us. The other view suggested that trading partners were experiencing declining self-sufficiency and that Canadian production was simply filling in the gaps. Under this scenario, Canadian hog/pork exports would be vulnerable to changes in our trading partners' degree of self-sufficiency. Exchange rate variations were brought up as another important factor for export development and, more importantly, export variability.

The group then focused on the strengths and weaknesses that brought about the increase in production. The strengths were outlined as:

- good management skills on the farm;
- good grading incentives resulting in lean, good-quality hogs;
- efficient farms that over the years have moved to a larger farm size, with large capital investment and stable production, while small farms with more variable production have left the industry; and
- the ability over the years for producers to make decisions for themselves about production.

The weaknesses of the industry were expressed as:

- the movement in some cases to farms that may be too large and, because of the large capital investment, cannot contract;
- lending institutions that do not provide timely financing, as they generally do not lend money when it is most needed in the low cycle to build production to meet the high in the cycle;
- the perception of other countries that our domestic policies are countervailable; and
- the low profile of pork in the GATT negotiations, which does not receive the attention it deserves according to the size of the industry.

Questions 2, 3 and 4

Questions 2, 3 and 4 were answered together through the following approach:

- What are our marketing opportunities?
- What are the constraints to achieving these opportunities?
- What are the directions we should take to meet these opportunities?

Workshop delegates agreed that Canada faces many export market opportunities if we can maintain a competitive position in international markets. The United States and Japan were identified, but other regions were not specifically mentioned.

The constraints to export development are, as expressed in the previous section, the policies that are seen by other regions to be countervailable. Other constraints were the information gaps and lack of technology transfer to the farm level, which could put Canadian production behind world standards and which could increase the risk of losing our competitive edge.

Directions for action centered around export development. Research on export markets should be carried out by the experts in the field, processors, trading companies and government. Producers need not be involved directly in the technical research but should take the role of making sure the job gets done, and making it known that the work is vital to the industry. Along this line, the group felt that communication between all levels involved, including producers, processors and government, is crucial. If we are going to increase our exports, we must move toward meeting consumer demand in the trading regions. Communication is vital for this to occur in order that supply can be tailored, if need be, to meet demand of different sorts. Consensus was reached that the approach to export development should be national, as an increase in exports affects all of Canadian production. A national approach would also stem the competition between provinces for export markets.

Question 5

There was consensus that a national price or income support program would be desirable. However, it was made clear that such a program must be designed to be acceptable to all participants, and therefore to reflect the wide differences across the regions. It was noted that the program should be sufficient in itself and that bottom, side or top loading would not be necessary from individual provinces. It was stated that such a program would facilitate the formation of a national outlook for export development.

WORKSHOP V

Chairman:	**David Craven**
Reporting secretary:	**Gordon Pugh**
Advisers:	**J.C. Gilson**
	Jim Morris

There were conflicting views as to whether the increased exposure of the Canadian hog and pork industries has been a positive or negative development. On the one hand, it was felt that this increased exposure had resulted in lower average prices to producers; in other words the only benefits of exporting accrued to packers and export houses. On the other hand, there was the view that the development of the last 10 years had been clearly beneficial: the increased exports had permitted the industry to continue to expand during a period in which domestic demand had been stagnating. In short, one is not overproducing if money is being made by producing.

Regardless of participants' views of the desirability of our export situation, there was no disagreement that the increased exposure to the

international market has increased the vulnerability of Canadian hog producers to events outside Canada's borders. The problems of competing in the international market came on top of numerous domestic problems.

The conflicting views tended to center around the issue of whether production had expanded too much, not on whether export markets were important to Canadian producers. Everyone seemed to agree that some amount of export was inevitable and beneficial to the industry. In this respect there was agreement that several things were of major importance:

- securing access to the U.S. market was considered to be of paramount importance;
- the EEC is viewed as a major potential market;
- the EEC's export subsidy system is limiting Canadian export development;
- Canada needs to become more aware of foreign market needs;
- more communication between exporters/packer and producers is required in order to better tailor pork products to foreign markets' needs; and
- there has to be a national approach to export market development, as current efforts are too uncoordinated.

With regard to the domestic market, constraints to the industry were also identified:

- to date there has been inadequate time and money devoted to market development and market research, especially for new product development;
- provincial government subsidy programs have distorted regional comparative advantage and have provided ammunition to the U.S. in restricting Canadian exports;
- there was a feeling that Canadian grains policy has been detrimental to Canadian hog producers in some areas; and
- there may be too many uncommitted producers in the business as a result of lack of production alternatives for young producers and as a result of tax policy.

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Where To Go From Here?

Comment by Tom Smith
Chairman
Ontario Pork Producers' Marketing Board

For me, it is fairly basic and fairly simple to decide where to go from here. I am heading for Utopia. However, there are always some realities that one must face, and I think that in a lot of cases getting there is sometimes most of the fun. There will be a few realities to face when I get there. For example, I will be missing my son's hockey games before I get there. This will make Utopia just not quite what I sometimes imagine.

In the proceedings of this workshop, we are looking into the future. We all have our dreams. Hopefully we can set off again on a course that is going to be one that will achieve success for us as an industry. Of course, when we think we get there, there will be new challenges to face as well.

However, we have decided that maybe the status quo is not something we can accept as an indicator of where we go from here. The status quo always changes at any rate, and a year from now it is a different status quo from what it was today. A safety net would probably still be required in the industry, I would gather, in the future.

We have made a decision today that I think is quite significant. There has been general agreement here that we are national. It has taken this industry a long time to come to this realization. I think it is a very significant aspect of all the workshop sessions I have attended today, wherein this statement kept coming up.

We have many strengths in this industry. One that has been evolving over the last few years is very obvious here today: we must have cooperation and are getting it. We have producers here, we have the packing industry here, and we have government here. All are here with a dedication and a seriousness about this job that is very encouraging.

Research and development is an area that is going to be critical to this organization in the future. This includes research and development on the farm regarding breeding, management and meat quality; research and development through all aspects of the packing industry and processing and packaging; and research and development on presentation of new products. There is a real challenge there for us.

It is very interesting to note that the government currently is going through some of these processes to identify needs. I think we should have a strong voice in suggesting that our industry is going to require probably not a shifting of the pie, but rather more pie in these areas. It has been stated by all groups that we must have a government that is committed to keeping access to foreign markets. At times in the past, we have questioned whether the will was really there. But in the future, it must be there. We are in the export business as an industry. But we are not necessarily comfortable at this stage. We are all a little uneasy about what levels or what challenges or what doors are going to be closed to us. So this is where we need the government to secure that access for us.

Moreover, the total industry is going to be committed to export. As such, I would see a national export strategy required, with all players involved. This is not to have interference with our exports but to complement our exports. Perhaps it is time for producers to pay in order to guarantee this market. Then we would reap some of the benefits as well. We must have a resolve to do whatever is necessary to keep these markets.

Yvan Jacques spoke to us yesterday about throwing the ball into our court. I do not think we should throw the ball back. There is usually a net, and there is a great chance that someone will drop it. I think we should carry the ball back. We will not give it to Yvan; we will share it with him. We will also share it with the packing industry. We will make sure it stays in the air and does what we feel is necessary for our future.

I think Dr. J.C. Gilson yesterday stated things very well. He said we must confront the problems and the challenges and we must take whatever steps are necessary. I see us leaving here, having come to grips with problems. It looks like a great future, if we do confront them.

Comment by Laurent Pellerin
President
La Fédération des producteurs de porcs du Quebec

My comments relate to the main points raised during the preceding presentations. I have decided to go back to these points because they totally reflect the thinking of a group of producers widely represented in Canada.

First of all, the outlook for reduced exports to markets such as Japan was mentioned. The reduction of export markets is more than a possibility, it is already a reality.

Secondly, the hog/corn price ratio in the United States is another clear, hard reality, indicating that production will increase in future. Those who do not understand this are missing part of the problem. In my opinion, we will automatically have greater difficulty exporting to the United States. Or we will have to make major concessions to gain access to the American market.

We can also expect increasing competition between meats because of the various promotion programs in both Canada and the United States. Will pork emerge the winner? Will we succeed by maintaining the status quo? These are other questions worth investigating.

Almost all countries are trying to become self-sufficient in crop and livestock production. This is the trend in the world today. The reality is fairly clear. If all countries are trying to become self-sufficient, it may mean that some will move backward. This is not fiction. A few panelists at the workshop spoke of their dreams for the future. What I am referring to are not dreams but the reality of today, the reality of tomorrow.

It is probably unrealistic to hope that Canada will be able to increase its exports of agricultural products, especially pork products. In my opinion, the challenge is simply to maintain current export levels or perhaps to maintain any given export level.

Some speakers yesterday spoke about supply management in Canada as a frightening possibility. I believe that the simple pressure of market forces—and by this I mean the closing of the American market or reduced access to that market—could have as harmful an effect on production volume as supply management. The only difference is that in one case the reduction could take place in cruel, undisciplined fashion whereas in the other case it would be managed.

In this perspective of a rather limited world market, I think that we should be practicing supply management or, to avoid any ambiguity, management of pork production in Canada. If some are afraid of the implication of these words, then perhaps other words could be used. But the substance does not change. Some people have dreams for the export market. These same people may have nightmares if we consider managing our production.

Canadian pork production is not as well managed at the producer level as it is at the processor level. The industry, it seems to me, clearly is run by the processing sector. If the world processing market is referred to as a price taker because we are in an export market, then hog producers are certainly also price takers. In the end they may also be "trouble takers."

What does supply management entail? First of all, it could include management of consumer issues, management of exports, management of support for producers and the industry, management of the domestic price, management of research, management of marketing promotion, management of production volume, and management of everything affecting the Canadian industry. This is a challenge facing all of us. Management thus replaces "freedom." Freedom after all is only a word.

For me, "tripartite" means a free market. The market is allowed to operate on its own and we get what the tripartite system permits. In my mind, the tripartite system is exactly the opposite of supply management. With supply management we take charge of production, producers and the industry as a whole.

A free market is basically one that is not manipulated or at the mercy of some agent. This is where the danger lies. In our supposedly free market system in the U.S. mold, we do not really know what a truly free market is. What we know is a market of manipulation or a market of chance.

Given this situation, I think that our first choice and the most reliable one is to turn to the domestic market. Moreover, this is where most of our main problems originate. Compare the difference in prices paid to Canadian producers with the difference in prices paid to American producers. Our domestic market benefits from a product that is not too expensive because we have operated on

an export market. I think it is important to turn to our domestic market and to fix pricing conditions in order to safeguard most of our production.

Another way of taking effective action on the domestic market is to promote our product in order to increase consumption. If consumption rises 10% in Canada, you all know that this means 10% fewer exports, 10% less customs trouble, and also 10% possible additional benefits. An increase of 10% of 30 kg of per capita consumption of pork and pork products is 3 kg.

Could export contracts also be negotiated with other countries? I think so. For the GATT negotiators, the challenge is possibly to negotiate acceptable conditions for Canadian farmers, including hog producers. This might make more sense than passing on the challenge to producers or making them produce a product for which they will not be paid.

In closing, I would like to point out a most important fact in the options presented at this workshop. It concerns the calculations Agriculture Canada was asked to make concerning net returns to producers. I refer to two options that may appear diametrically opposed to one another but that, at the end of the five-year analysis period, might yield the same results for producers. The tripartite option presented could result in a decline of about 2% in earnings. In the case of supply management with 10% exports, the net return to producers would also decline by 2% and several million fewer hogs would be produced.

The question is: Are we going to produce 20% more hogs to get the same results in the end? I think this is a matter worth studying. Certainly, various items could be managed. As a producer representative, I want it to be perfectly clear that what is most important for us is the net return to producers. Canada's trade balance and the grain surplus are other problems, and as such require other solutions.

Comment by Joseph Côté
Groupe Olympia Ltée

On behalf of pork processors, I am grateful to the Canadian Pork Council for this opportunity to address an audience deeply involved in the pork industry. The timing is especially appropriate, since the entire pork industry will have to act aggressively in the coming years in order to move ahead.

Rather than detail the past history of the pork industry in Canada, I would instead like to reformulate the question to ask: How are production and slaughtering operations going to change and work in the years ahead? I think now more than ever, we must cooperate and recognize the contribution of each toward prosperity for all.

In the past 15 years, we have witnessed a growing concentration of ownership of slaughtering plants in Canada. This development has come about as a result of stiff competition between them, especially as a result of the greater efficiency and profitability made possible by new technology.

Slaughtering plant operations will survive only if they remain at the forefront of technology. Just as producers are required to perfect their management expertise, so slaughtering plants not only must seek maximum efficiency in the present but also must be able to detect or forecast local, national and international market trends in the future. The ability to forecast market trends precisely is the answer to the first part of the above question.

The future direction of the slaughtering industry brings to mind several questions. To some extent, the simplest problems were resolved when the decision to modernize our plants was made and carried out. But anticipating trends in North American and world markets presents a more difficult challenge. If we want the Canadian pork industry to maintain its position or to achieve greater prosperity, we must address the various issues that arise.

Vacuum packaging is a technology that is starting to revolutionize the food industry. Before long, this process will be widespread. New Zealand, for example, is already shipping fresh lamb to the Canadian market using the process. Think of the competition that lies ahead for Canada on the world market! If the Canadian pork industry does not take advantage of existing opportunities to develop, competition down the road could turn the industry into a second-rate concern. I do not think anyone wishes for this to happen.

Efficiency should normally be a gauge of profitability. Usually this is the case. But the situation has changed and consumers are increasingly influencing the destiny of all industries. Choices facing consumers have multiplied to such an extent that no industry in the agri-food sector can survive without taking this major factor into account. All links in the agri-food chain are affected by the changing tastes of consumers. The increasing concentration of slaughtering plants now has reached its terminal phase.

At the same time, small cutting rooms with one or two specialties are also springing up. This is a

relatively new development in response to specific needs. Are these cutting rooms here to stay to compete with the larger cutting rooms with standardized production lines? Personally, I think that they will stay and will force the large cutting rooms to develop so-called specialty lines based on the specific needs of the large food chains, which after all are the first to detect changing consumer trends.

Slaughtering plants and cutting rooms cannot remain unaffected by the competition coming from both inside and outside the industry. I mentioned earlier that all segments of the agri-food industry are affected by changes in consumer tastes. I and many others in the slaughtering and processing sector are aware that hog producers have made efforts to supply animals that meet today's requirements. Producers deserve congratulations for the genetic improvements they have made and are continuing to make.

Slaughtering plants have established and will continue to establish facilities to meet market requirements. I believe that the time has come for producers and slaughtering plant operators to examine together the problems that the entire pork industry will face in the years ahead. This is where my initial question takes on real meaning.

While stabilization programs are currently under review, one certainty remains. Regardless of the final decision on whether to maintain the status quo, to adopt supply management or a tripartite formula, or to eliminate stabilization programs, all Canadian producers are aware of the effects of their choices. Since 1976, the pork industry has developed as a result of exports but, by the same token, this has increased our dependence on foreign markets.

The slaughtering industry must be aware of and must come to grips with currency fluctuations, import quotas, surtaxes and other export market constraints. Producers must make their choices knowing that all decisions affecting exports will be examined by other countries that may feel injured by their actions.

In my opinion, the Canadian pork industry is in the best position to brave the free trade sentiment currently prevailing in Canada and the United States. The spirit of free competition is starting to gain ground in the GATT talks. Our industry would be ill-advised to adopt short-term policies that impede our expansion on world markets. It should be borne in mind that what is good for slaughtering plants is also good for producers. Exports of live hogs are still countervailable and this is only the tip of the iceberg.

It was once possible to import or export hogs and pork products without disturbing or threatening anyone. That time is no more. Now all internal policies affect our trading partners. The pork industry has become too important for us to operate with an isolationist mentality. Our means of production and processing are such that both producers and processors have to confront the political, economic and social changes taking place in trading partner countries.

Comment by Barry Mehr
Assistant Deputy Minister, Marketing
Alberta Agriculture

Canadian governments must clearly define the industry environment and must design programs in support of the hog/port industry's strengths and realities.

As an example, Alberta's agricultural reality includes a world-class capability for the production and processing of cattle and hogs, grains and oilseeds and, in theory, a real capability to produce dairy and poultry products well beyond local market requirements. Canadian requirements should be defined similarly and, I believe, they do not greatly differ from those defined for Alberta. Canada has a small domestic and local market on which to build a food processing industry – in this case, a pork processing and further processing industry. As traditional commodity markets dry up, Canadians are seeing significant growth in the processing sector based on increased exports, especially pork exports.

Market realities

The world is demanding fewer commodities. What do we do when we have based industry structure on the marketing of grains and oilseeds to international customers? Over the next five to ten years, Canada's opportunities are optimistic; we must work in these current stressful times to achieve these opportunities. This will require a significant effort and a level of sophistication that Canadian industry and governments have not yet achieved.

Industry development must be market driven, and government support must be similiarly driven.

What are our traditional markets telling us?

China now is self-sufficient in wheat production. This country has objectives to significantly increase meat and dairy production and therefore livestock numbers. In the short run it has turned

to grain production, so it is now one of our competitors in world markets for feedgrains. In the medium and longer term it will begin to achieve its objectives in livestock production, and its marginal lands will be turned from growing wheat to producing feedgrains and forages. Therefore the country will need to continue to import high-quality Canadian food wheat for blending purposes and to replace the lost wheat production from the marginal lands. The market will be important but, at best, static.

The Soviet Union is Canada's major grain market. This country is probably no more than five to seven years behind the Chinese in achieving its objectives in grain production. Again, it has significant objectives to increase livestock production, and this will create an ongoing market for Canadian grain, similar to the Chinese circumstance. The Soviet grain market will be long term, but will not reach the plateau of demand of the last decade. With diligence in quality control and service, Canada will retain volume and a larger grain market share in both the Soviet Union and China.

Western Europe, as we all know, has changed from a major importer to a major exporter. At best, all the new round of GATT talks can hope to achieve is gradual reduction of western European production levels toward self-sufficiency.

In developing countries, there will be increased demand for commodities as their standards of living are raised. At the same time this demand will more or less be met by new production from the same group of countries. The result for Canada is a relatively static demand scenario.

The lesser developed countries are basically aid markets. Potentials will therefore be limited to the potentials of the Canadian economy to grant this aid.

The primary export markets for Canada are Japan and the United States. Japan will continue to be exceedingly important to Canada's commodity marketers. Japan's food product requirements will more and more become one of the foundations on which to develop Canada's agriculture and food industry. Canada's real opportunity for growth here is to supply meats, including beef, pork and horsemeat. At the same time, regional advantages will allow Canada to take significant market share in the northeastern and western United States. Even though U.S. pork production will increase, this increase will be in regions of the U.S. that cannot compete with Canada as long as competitive, long-term U.S. market access is available to the U.S. industry.

The Canadian home market will remain part of the foundation. Because population growth is static, however, it will not present a real potential to assist in the Canadian industry's transition from commodities to further processed products such as pork.

In summary the foundation on which Canada's agriculture and therefore the hog and pork industry will survive and grow is the three primary markets: Japan, the United States and Canada. All of these markets will be much more competitive than in the past and will require more sophisiticated approaches to hold onto traditional market shares and to grow. We could throw up our arms and say this is an impossible challenge. Or we could roll up our sleeves, get down to work and move forward in order to achieve the many benefits to the Canadian agriculture and food products industries that are available in the future from these sophisticated and demanding marketplaces.

Canadian target

Attaining a world-class food processing industry to serve the primary markets is the pork/hog industry's challenge.

This means that Canadian government support for the hog, pork and further processed pork product industries must be designed in a fashion that will allow the industry to reach its full potential to utilize the vast surpluses of feedgrains that Canada is finding more and more difficult to market as commodities internationally.

Governments must underwrite primary production in such a fashion as to encourage its further development in the most efficient production regions. It must be done in such a way as to maintain market access, particularly open market access, in the long term in the primary markets. It is therefore essential that Canada's stabilization system be production-neutral and have minimum impact on market access. This means that there must be discipline with regard to regional development prorams and severe restrictions on or prohibition of so-called top-loading programs.

Governments must assist industry in knowing and understanding the U.S. and Japanese consumers as we know the Canadian consumer.

Governments must secure market access, particularly to the United States and Japanese markets, and must remove impediments to free trade within the Canadian domestic system.

Canada's marketing systems must be modernized so that the transition can be made fom a commodity-oriented industry to a value-added food

products industry. This includes modernization of traditional institutions such as the Canadian Wheat Board, supply management, government support programs such as stabilization, and transportation support such as the Western Grains Transportion Agency. This includes the noncompetitive way in which the federal government supports industry through a myriad of departmental programs delivered by the Department of Regional Industrial Expansion, External Affairs and Agriculture Canada, instead of unified support through a central agency, as our major competitor, the United States, does through its Department of Agriculture.

The Canadian agriculture and food industry must market with the realization that this country has different and differing circumstances and opportunities as they relate to agriculture. Therefore, as an example, the pork industry, which currently exports 30% of its production, would not be well served by a unified national marketing agency for its products. Because of our geography, our varied production capabilities, limitations and potential and the success of our established system, a national sales approach to the world's markets would be a disastrous, retrograde step.

Government's major role in support of the future development of Canada's hog, pork and further processed pork products industry will be played by those who have the responsibility for achieving competitive long-term access to the U.S. and Japanese markets, namely the trade negotiators. Investor confidence will be achieved by the removal of trade impediments, and this will lead to the optimal development of the industry within the Canadian environment. Government must support industry development built on a rational, stable base whose foundation does not limit market potential. The marketing system must recognize the disparity of circumstance of the many regions of Canada. Industry development must be in response to market demands.

Governments role must be directed toward the implementation of policy and programs that support these myriad demands without disadvantaging those areas that have the most potential to contribute to Canada's economic growth through the production, processing and marketing of hogs, pork and pork products.

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Chairman's Summary

Bill Vaags
President
Canadian Pork Council

In summarizing the workshop proceedings, some of my comments might be somewhat repetitious. Therefore I will try to make them very brief. But before I get into summarizing what I have heard and seen, I wish to make a couple of notes of appreciation.

First, I want to reiterate that the entire study as well as the conference planning in the whole exercise was done in cooperation with Agriculture Canada. I also want to express our thanks to Agriculture Canada for being so cooperative during this entire venture for our commodity. It was a major undertaking, as I have said earlier, and we are very appreciative of that.

I want to thank all the speakers who have been here. Without them, we could not have made the conference such a success. To the panelists this afternoon, I am very appreciative of their effort. No doubt there is still some diversion of opinions, but that is good. In order to have good dialogue, you want to have everybody coming in on the same wavelength.

In sitting in on all the workshops this morning, I was extremely pleased that we could bring people from all over Canada as well as some from other countries to delve into a bunch of difficult questions. I know they are not easy to answer. But everybody could sit there with level heads prevailing and really discuss the issues in order to come to grips with them. Of course, it is not always possible to come to exact agreement on every issue. Nonetheless, I think all participants did an excellent job; and I am very pleased with that.

Another issue I want to bring to your attention is our decision yesterday to make this a closed conference; we said we would have no press in the audience. We purposely left it to this afternoon to announce that the summary of the report we have been discussing at this workshop has been released; as of tonight this summary will be a public document.

As I have said, if I simply spoke from my own notes, I probably would be here for half an hour. Instead, I will refine the points I think the participants dealt with. Some of them will be repetitious so I am just going to read them. I think then we will take this as being the gospel, unless we hear very much exception to it.

The emphasis seems to be that our industry must be a national one and consistent in scope in terms of both market development and income security policies, while recognizing different regional perspectives. There must be good communication, which we have had in this workshop.

As for quality objectives, we cannot define all our limits, especially on the export side. The consensus seems to be that we do not set targets, but that we must allow the market to develop as necessary as we strive to create and take advantage of all available opportunities.

Because pork is now the second most important Canadian agricultural export after wheat, we look for government involvement in market development efforts similar to what has been done in other areas. Quality has been the major determining factor of our success in moving from being a net importing nation to being one of the world's most important exporters of pork. To maintain our record of excellence, we must pursue continued improvements through our grading systems, through our animal health and meat hygiene programs, and through research to achieve maximum performance in our producer, packer and other industry sectors. We strongly support our government in seeking secured access for:

- our existing pork exports;
- better-defined international trade rules to make sure our rules are fair and equitable for all

- greater added–value in our exports through more liberal terms of trade for processed product; and
- diversification of our export market.

The background study and this conference addressed all of the principal policy options in depth, including the status quo, supply management and no intervention options. Future feedgrain supplies and existing production capacities suggest that the Canadian pork industry will remain export oriented, and the most effective and feasible means of achieving our required export sales potential is to aggressively pursue trade interests through bilateral and multilateral negotiations combined with a well-coordinated market development effort, while at the same time providing some protection for producers against the worst effects of price instability. In talking about this risk factor, concern was expressed that we may need some assistance in this area. We should not forget that, while there has been a lot of focus on the export side, 70% of our production is still consumed at home. Therefore we require continued and coordinated domestic market development activities.

This concludes my summary of the very brief notes we have put together here. We think the conference was an excellent one. It could not have been done without the help of everyone, including all the participants. I think they have done an excellent job in bringing it all together.

I think in our press release we can say that the hog producers of Canada have taken a clear directive: they are still very much involved in export marketing and have not taken a curtailment approach to the system. While no doubt many in this country would still like to see supply management, the consensus of the majority of producers in Canada is that we go on as we have done and hopefully expand on that.

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Industry Conference Emphasizes Export Market Development

The following press release was issued following the close of the National Workshop on Hog Marketing Alternatives by the Canadian Pork Council.

Ottawa: March 2, 1987 – The future of the Canadian hog and pork industry will be best served by a nationally coordinated and consistent approach to both market development and income security policies, while continuing to recognize, where possible, different regional perspectives. This was the main summary conclusion of the National Workshop on Hog Markeing Alternatives, co-sponsored by Agriculture Canada and the Canadian Pork Council.

In his closing remarks, Bill Vaags, President of the Canadian Pork Council, indicated pork is now the second most important Canadian agriculture export after wheat, and the industry must endeavour to create and take advantage of all available sales opportunities.

Many of the speakers and panelists at the two-day meeting identified coordination and communication between all parties involved in the pork export business, including producers, packers and governments, in the effort to realize industry sales and quality objectives.

Another conclusion of the workshop was that product quality has been a major determining factor for Canada moving from a net importer of 15% of its domestic pork consumption to a net exporter of 30% of Canadian pork production in less than ten years. To maintain this position of excellence it was agreed to pursue continued improvements in pork quality through Canada's innovational hog grading system, animal health and meat hygiene programs, and research to achieve the maximum performance in the producer, packer and other industry sectors.

Both U.S.-Canada and the GATT multilateral trade negotiations now in progress received considerable attention in the meeting. Producer delegates to the Workshop were in strong support of the federal govenment taking a very positive approach to these trade talks in striving to obtain secured access for our existing pork markets, better defined international trade rules, greater value-added in our exports through more liberal terms of trade for processed products, and more diversification of our export markets.

"The background study and this conference have addressed all of the principal policy options in depth, including the status quo, supply management, and no intervention. Producer support for either of these latter two alternatives is very limited," said Mr. Vaags in his concluding comments to the Workshop. "Future feed grain supplies and existing production capacity suggest that the Canadian hog industry will remain export oriented, and the most effective and feasible means of achieving our required export sales potential is to aggressively pursue trade interests through bilteral and multilateral negotiations combined with a well-coordinated market development effort, while at the same time providing some protection for producers against the worst effects of price instability."

Mr. Vaags, however, cautioned against focussing exlusively on exports. "Some 70% of our hog production is consumed in Canada, and this requires continued and coordinated domestic market development activities," he added.

The National Workshop on Hog Marketing Alternatives, held in Ottawa on February 26 and 27, was a result of a request made in 1985 by the Canadian Pork Council to Agriculture Canada to undertake a comprehensive review of pork industry trends and projections of production and trade under various scenarios. The CPC is the national federation of provincial pork producers' marketing boards and associations.

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List of Participants

Newfoundland Hog Marketing Board:
Denis Galway

Prince Edward Island Hog Commodity Marketing Board:
Alvin Yeo
Donald Mutch

Pork Producers' Marketing Board of Nova Scotia:
Werner Van Thielen
John Miller

New Brunswick Hog Marketing Board:
Jeannet Volpé
Watson Cudmore
Stephen Moffett

La Fédération des producteurs de porcs du Québec:
Robert Fournier
Michel Palardy
Raymond Bouchard
Roger Hébert
Terence Desjarlais
Marc Aubin
Raymond Vinet
Adrien Girard
Marcel Desprès
Paul-Emile Pouliot
Gratien Lavoie
Benoit Desilets
René Turcotte
Laurent Pellerin
Daniele Bonnin
Michèle Pelletier

Ontario Pork Producers' Marketing Board:
Doug Farrell
James Duffy
Ron Douglas
Wallace Ballagh
Marion Myers
Dave McDonald
John Lichti
Ted Jensen
Jim Goodhand
Amsey Frey
Ross Small
Warren Stein
Glynn Waterton
Howard Malcolm
Tom Smith
Glenn Agnew
Tim France
Helmut Loewen

Manitoba Hog Producers' Marketing Board:
Ken Johnston
Doug Head
Weldon Newton
Gorden Ferriss
Walter Mazinke
Ken Foster
Ed Kleinsasser
Larry Sedgwick

Saskatchewa Pork Producers' Marketing Board:
Richard Wright
Glenn Hepworth
Ken Jamieson
Scott Gattey
Roger Thibault
Jim Morris

Alberta Pork Producers' Marketing Board:
Vern Meek
Rick Ennis
Victor Chrapko
John Prentice
Ed Schultz
Art Rempel
Harry Little
Ekhard Tiller
Roy Barrett
Greg Smith

British Columbia Hog Marketing Commission:
Jake Janzen
David Craven
Ben Doerksen
David Van der Flier

Canadian Pork Council:
Bill Vaags
Martin Rice
Catherine Scovil

Agriculture Canada:
Len Fisher
Yvan Jacques
Jean-Jacques Noreau
Zuhair Hassan
Conrad L'Ecuyer
Wayne White
Frank Claydon
Donald West
Larry Young
Alan Boswell
H. Bruce Huff
Roderick Bailey
Jack Geilner
Réjean Bouchard
Janice Dyer
Pierre Charlebois
Merritt Cluff
Glenn Hansen
S.W. Borland
Gordon Pugh
Ezio diEmanuele
Pam Cooper
Max Colwell
Leo Curtin

External Affairs/Affaires extérieures:
Donald McNicol
Geoff Adams
Sally Jorgensen

Finance Canada:
Gerry Birks

Regional Industrial Expansion/Expansion industrielle régionale:
George Baker

Trade Negotiations Office:
M.N. Gifford

Livestock Feed Board of Canada/Office des provendes du Canada:
Douglas Mutch

National Farm Products Marketing Council/ Conseil national de commercialisation des produits agricoles:
Glenn Flaten

Prince Edward Island Department of Agriculture:
David Faulkner

Nova Scotia Department of Agriculture:
Jack Johnson
Rollie Haymen

New Brunswick Department of Agriculture:
Armand Lavoie
Fraser Murray

Ministère de l'Agriculture, des Pêcheries et de l'Alimentation de Québec:
Agnès Januszkiewicz
Jean-Benoit Guy

Régie des assurances agricoles du Québec:
Robert Wagner
Daniel Roy

Ontario Ministry of Agriculture and Food:
Russell Duckworth
Kevin Grear
George Collin
Gervan Fearon
David Tiffin
Dan Rose

Government of Saskatchewan:
Alan Theede
Joseph Côté

Alberta Agriculture:
Fred Schuld
Barry Mehr

United States Department of Agriculture:
Les Myers

Canadian Meat Council and members:
David Adams
Donald Davidson
Gary MacMillan
Dennis Colter
Brad Perkins
Bill McLean
Greg Whalley
Joseph Côté

Provigo Distribution Inc.
Pierre-Paul Léger

Canworld Foods Ltd.
Don Newton

Canada Packers (Japan) Ltd.:
Akibumi Sekiya

Groupe Brochu:
M. Landry

Danish Bacon and Meat Council:
Knud Buhl

Canadian Feed Industry Association:
Bob Robson

Canadian Federation of Agriculture:
Don Knoerr

Ontario Federation of Agriculture:
Bill Benson

Alberta Feed Grain Users Association:
Stan Price

Chase Econometrics:
Ray Daniel

Universities:
Robert Saint-Louis
J.C. Gilson
Douglas Morrison
Murray Hawkins
Howard Fredeen
Garth Coffin
Michele Veeman
Ken Rosaasen
Andrew Schmitz